

MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE CORPORATION (MPI)
GENERAL RATE APPLICATION FOR
2015-2016 INSURANCE YEAR

Before Board Panel:

Karen Botting	- Board Chairman
Regis Gosselin	- Board Member
Anita Neville	- Board Member
Susan Proven	- Board Member
Allan Morin	- Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
November 12, 2014
Pages 1782 to 1989



“When You Talk - We Listen!”



APPEARANCES

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EXHIBITS		
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3	MPI-47	Response to Undertaking 4 1789
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1	EXHIBITS (Con't)	
2	NO.	PAGE NO.
3	CAC-19	Monetary police report of
4		October 2014 1842
5	MPI-69	Response to the Pre-Asks by the
6		Public Utilities Board 6(a) and
7		6(b) 1897
8	MPI-70	PUB DCAT summaries 1953
9	MPI-71	DCAT loss ratios 1954
10	MPI-72	DCAT one (1) in two hundred (200)
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1 --- Upon commencing at 9:05 a.m.

2

3 THE CHAIRPERSON: Good morning,
4 everyone, and welcome back. We're going to begin this
5 morning's proceedings with Ms. Kalinowsky, who has some
6 exhibits to enter. And presently Ms. Dubois is
7 preparing the exhibits for distribution.

8 Ms. Kalinowsky...?

9 MS. KATHY KALINOWSKY: Yes. Good
10 morning. Hopefully everybody had a nice day and spent
11 some time reflecting on the importance of the day,
12 especially after the 100th anniversary of the outset of
13 the first World War.

14 Over I guess Thursday, Friday, and some
15 of the weekend a number of people at MPI were very busy
16 preparing some undertakings, and we've got a whole
17 bundle here; approximately twenty (20) to file.

18 We do have a few more that will be
19 coming in. There was a request for a pre -- further
20 pre-ask request from the Public Utilities Board that
21 was delivered Monday night, and it's just being
22 finalized right now. And I understand Mr. Johnston
23 will have some further tables to prepare with response
24 to what we called the -- the super DCAT undertaking of
25 the Public Utilities Board. So that will come in later

1 today. A number of people are still working on that.

2 But I have coordinated with the Board's
3 secretary all of the numbers for the exhibits. We can
4 go through those fairly quickly. And the exhibits have
5 been each packaged already for each individual so they
6 can be distributed, too. So if I can go through that.

7 Undertaking number 4 is number 47 from
8 MPI.

9

10 --- EXHIBIT NO. MPI-47: Response to Undertaking 4

11

12 MS. KATHY KALINOWSKY: Undertaking
13 number 6 with attachments would be -- of about a dozen
14 pages would be MPI Exhibit number 48.

15

16 --- EXHIBIT NO. MPI-48: Response to Undertaking 6

17

18 MS. KATHY KALINOWSKY: Undertaking
19 number 12 with attachments of about twenty-five (25)
20 pages will be Exhibit number 49.

21

22 --- EXHIBIT NO. MPI-49: Response to Undertaking 12

23

24 MS. KATHY KALINOWSKY: Moving through
25 to Undertaking number 17 which will be MPI Exhibit

1 number 50.

2

3 --- EXHIBIT NO. MPI-50: Response to Undertaking 17

4

5 MS. KATHY KALINOWSKY: Undertaking

6 number 26 will be Exhibit number 51.

7

8 --- EXHIBIT NO. MPI-51: Response to Undertaking 26

9

10 MS. KATHY KALINOWSKY: Undertaking

11 number 35, Exhibit number 52.

12

13 --- EXHIBIT NO. MPI-52: Response to Undertaking 35

14

15 MS. KATHY KALINOWSKY: Undertaking 39

16 will be Exhibit number 53.

17

18 --- EXHIBIT NO. MPI-53: Response to Undertaking 39

19

20 MS. KATHY KALINOWSKY: Undertaking

21 number 40 will be Exhibit MPI number 54.

22

23 --- EXHIBIT NO. MPI-54: Response to Undertaking 40

24

25 MS. KATHY KALINOWSKY: Undertaking

1 number 1 will be -- or Undertaking number 41 will be
2 MPI Exhibit number 55.

3

4 --- EXHIBIT NO. MPI-55: Response to Undertaking 41

5

6 MS. KATHY KALINOWSKY: Undertaking
7 number 42 will be number fifty-six (56).

8

9 --- EXHIBIT NO. MPI-56: Response to Undertaking 42

10

11 MS. KATHY KALINOWSKY: Undertaking
12 number 43 will be MPI Exhibit number 57.

13

14 --- EXHIBIT NO. MPI-57: Response to Undertaking 43

15

16 MS. KATHY KALINOWSKY: Undertaking 44
17 with an attachment will be MPI Exhibit number 58.

18

19 --- EXHIBIT NO. MPI-58: Response to Undertaking 44

20

21 MS. KATHY KALINOWSKY: Undertaking
22 number 45, which is three (3) pages, will be MPI
23 Exhibit number 59.

24

25 --- EXHIBIT NO. MPI-59: Response to Undertaking 45

1 MS. KATHY KALINOWSKY: Undertaking
2 number 46 will be MPI Exhibit number 60.

3

4 --- EXHIBIT NO. MPI-60: Response to Undertaking 46

5

6 MS. KATHY KALINOWSKY: Undertaking
7 number 47 will be MPI Exhibit number 61.

8

9 --- EXHIBIT NO. MPI-61: Response to Undertaking 47

10

11 MS. KATHY KALINOWSKY: Undertaking
12 number 48 will be MPI Exhibit number 62.

13

14 --- EXHIBIT NO. MPI-62: Response to Undertaking 48

15

16 MS. KATHY KALINOWSKY: Undertaking 49
17 will be MPI Exhibit number 63.

18

19 --- EXHIBIT NO. MPI-63: Response to Undertaking 49

20

21 MS. KATHY KALINOWSKY: Undertaking
22 number 50 will be MPI Exhibit number 64.

23

24 --- EXHIBIT NO. MPI-64: Response to Undertaking 50

25

1 MS. KATHY KALINOWSKY: Undertakings 51
2 and 52 have been combined together, and that will be --
3 it's one (1) page long, and it will be MPI Exhibit
4 number 65.

5

6 --- EXHIBIT NO. MPI-65: Response to Undertakings 51
7 and 52

8

9 MS. KATHY KALINOWSKY: Undertakings 53,
10 54, and 55, as they all dealt with the same aspect,
11 will be combined into one (1) undertaking, and that
12 will be Exhibit number 66.

13

14 --- EXHIBIT NO. MPI-66: Response to Undertakings
15 53, 54, and 55

16

17 MS. KATHY KALINOWSKY: Undertaking
18 number 57 with a couple pages of attachments will be
19 MPI Exhibit number 67.

20

21 --- EXHIBIT NO. MPI-67: Response to Undertaking 57

22

23 MS. KATHY KALINOWSKY: And Undertaking
24 number 58 will be MPI Exhibit number 68.

25

1 --- EXHIBIT NO. MPI-68: Response to Undertaking 58

2

3 MS. KATHY KALINOWSKY: And I did
4 mention earlier that more exhibits will be forthcoming,
5 and we'll be doing a -- a very short re-direct of Mr.
6 Johnston later on today.

7 I can also indicate that Mr. Guimond had
8 one (1) item that he would just like to put on the
9 record too. So I'll hand the microphone over to him if
10 that's all right this morning.

11 MR. DAN GUIMOND: Good morning. I just
12 -- just wanted the opportunity maybe to put this into
13 the record. Much has been said about Marilyn -- Ms.
14 Marilyn McLaren's contract in the media. A few people
15 here have commented on it also, and CAC has introduced
16 a transcript from standing committee.

17 I just wanted to put in the record the
18 following. It was never Ms. Marilyn McLaren's position
19 to take money for doing nothing. During my transition,
20 she was on standby, and she understood and expected to
21 work for the thirty-six (36) days prior to the end of
22 February 2015. In her mind, she always owed the
23 Corporation thirty-six (36) days of work.

24 I can now also confirm that MPI's board
25 of directors, subsequent to the HR committee held in

1 October 2014, was fully supportive of work I had
2 identified for Ms. Marilyn McLaren, had she not
3 cancelled the contract and returned the money. Thank
4 you.

5 THE CHAIRPERSON: Thank you, Mr.
6 Guimond. Now I'm going to call upon Mr. Schioler of
7 IBAM to give his cross-examination (sic).

8 Mr. Schioler, welcome.

9 MR. DAVID SCHIOLER: Thank you, Madam
10 Chair and Mr. Chair, as it may be.

11 THE CHAIRPERSON: And I forgot. I'm
12 sorry. Ms. Dubois is going to swear you in.

13 MR. DAVID SCHIOLER: Yes.

14 THE CHAIRPERSON: Thank you.

15

16 DAVID SCHIOLER, Affirmed

17

18 DIRECT EVIDENCE BY MR. DAVID SCHIOLER:

19 MR. DAVID SCHIOLER: Good to be before
20 the Board today, and thanks for having me. I'm
21 choosing to read prepared testimony into evidence
22 today. I think that'll be more beneficial for you to
23 go through a number of things so that I don't leave
24 anything out.

25 And then obviously I'm open to the

1 cross-examination or any questions you have that I can
2 give clarification to any of the proceedings or what I
3 have to say, that -- that's great.

4 Again, my name's Dave Schioler. I'm the
5 CEO of the Insurance Brokers Association of Manitoba.
6 The Insurance Brokers Association of Manitoba is one
7 (1) of eleven (11) provincial or regional associations
8 of property and casualty insurance brokers that make up
9 the Insurance Brokers Association of Canada, or IBAC.

10 IBAC represents approximately thirty-six
11 thousand (36,000) insurance brokers in virtually every
12 community across the country. IBAM itself is an
13 organization representing approximately two thousand
14 (2,000) broker members from all communities across
15 Manitoba.

16 The Association's efforts, always with
17 the best interests of consumers in mind and speaking
18 with a collective voice as the insurance authority in
19 Manitoba, are designed and extended to ensure that
20 insurance brokers remain the primary provider of
21 insurance services in Manitoba.

22 IBAM's four (4) pillars of
23 responsibility and activity are the following:

24 Political and government relations,
25 including relations with elected and unelected

1 political and regulatory authorities, and even
2 relations in these types of things in terms of giving
3 information, educating, and providing evidence.

4 Insurer relations, including both local
5 and national interests.

6 Issues concerning advancement of broker
7 interests in the broader public domain; professional
8 development and education requirements, with general
9 and strategic assistance in recruitment, hiring, and
10 retention. In fact, IBAM, the Insurance Brokers
11 Association of Manitoba, is the primary provider of
12 both pre-licensing and continuing education for brokers
13 in Manitoba.

14 And membership services, providing
15 general information to the membership and the industry;
16 handling administrative affairs, conducting the annual
17 conference, trade show, annual general meeting, other
18 meetings such as board meetings, and services and other
19 incidentals through regular -- regular interaction with
20 members.

21 IBAM is speaking to the Public Utilities
22 Board today mainly because it represents primarily or
23 almost the sole distributors of Manitoba public
24 insurance products, and also because approximately 33
25 to 35 percent of all insurance transactions done today

1 in Manitoba by insurance brokers are conducted
2 involving Manitoba Public Insurance.

3 So appropriate rate setting and the
4 overall viability of Manitoba Public Insurance going
5 forward is critical to IBAM's membership and to the
6 citizens of Manitoba who are insurance consumers and
7 customers of insurance brokers in Manitoba.

8 I want to talk a little bit about the
9 need for professional insurance brokers to -- to
10 protect Manitobans and serve Manitobans. So again, why
11 is IBAM presenting information and evidence to the
12 Public Utilities Board at this general rate
13 application?

14 A) To raise awareness of the complexity
15 of selling Manitoba Public Insurance Autopac products,
16 both Basic and Extend (sic) and to ensure that MPI has
17 the funding envelope required so as to protect
18 Manitobans by ensuring the viability of professional
19 insurance brokers and an insurance broker plant.

20 Brokers processed over 3.7 million
21 transactions for Manitoba Public Insurance in 2013.
22 Over eight hundred thousand (800,000) individual
23 customers, close to nine hundred thousand (900,000)
24 individual customers, present themselves to brokers,
25 each with a unique set of circumstances, different

1 vehicle types, and a very specific insurance needs.

2 I can tell you that vehicle
3 manufacturing is changing rapidly with autonomous
4 driver options, lightweight materials, and diverse
5 repair procedures. In cross-examination, I would
6 answer, How do I know that kind of thing? When you're
7 in the industry and working with the brokers all day,
8 you learn things anecdotally, and it's almost like
9 taking judic -- judicial notice of some of these kinds
10 of facts.

11 With these changes, more vehicles are
12 being written off due to the cost of complex repairs.
13 As a result, it is imperative to spend time with each
14 customer to determine individual best-fit insurance
15 needs. This can only be done with and through
16 professional insurance brokers. The insurance brokers
17 who distribute MPI Autopac insurance products are
18 trained and licenced professionals.

19 Insurance brokerage operations in
20 Manitoba must ensure they continue to hire and maintain
21 qualified, knowledgeable, and skilled staff to keep up
22 with the changing marketplace. This is the case,
23 notwithstanding the broker commissions on Basic Autopac
24 transactions, have been reduced from 5 percent to 2
25 percent over just the last few years.

1 IBAM, its member brokers, and MPI have
2 worked diligently and collaboratively over the last
3 eight (8) years to ensure that costs would be managed
4 effectively together at brokerage offices and at MPI
5 without reducing the level of service that Manitoba
6 insurance consumers should have and should maintain.

7 Ensuring that MPI has appropriate
8 funding to facilitate training, product development,
9 and improved broker conditions will also ensure the
10 viability of the broker plant and provide protection
11 and proper service to Manitobans.

12 A little bit about our relationship with
13 MPI. That is, IBAM's relationship with MPI and the
14 broker relationship with MPI. Insurance brokers in
15 Manitoba have joined -- enjoyed a longstanding
16 relationship with MPI. Insurance brokers have been for
17 over -- over forty (40) years the primary sales and
18 distribution channel for Manitoba Public Insurance.

19 Insurance brokers have been chosen by
20 Manitobans via convention, that's what Manitobans do,
21 and through the government as the primary, almost sole
22 distribution vehicle for MPI products in this Province.
23 This is the plan, and it is expected to be the case
24 into and beyond the foreseeable future.

25 How businesses transacted today is

1 nothing like it was transacted forty (40) years ago,
2 when MPI first started. Gone are the days of the
3 February 28th renewals each year. Customers found this
4 extremely difficult. Brokers had to staff up
5 enormously for a two (2) week period, and then handle
6 the slowdown after. The insurance renewal factory was
7 often lacking proper skills and expertise, resulting in
8 appropriate -- inappropriately covered vehicles and
9 unprotected Manitobans.

10 In many communities today, it is not
11 just about the profitability and, therefore, the
12 viability of a particular insurance broker. Manitoba
13 Public Insurance and IBAM work closely to ensure that
14 there exist a balance of business viability and
15 presence and service to Manitobans regardless of
16 proximity -- proximity to Winnipeg or Brandon or other
17 larger centres.

18 All Manitobans have the right to
19 insurance coverage and proper access to MPI products
20 and services. There are currently approximately three
21 hundred (300) insurance broker or Autopac agent
22 locations across the Province.

23 Today, business is increasingly
24 conducted with the best interests of all Manitobans in
25 mind. New regulations regarding privacy protection

1 have resulted in a number of detailed, complex
2 additional steps to each transaction. As well, photo
3 identification and identity protection were never part
4 of the mandate years ago, but they certainly are now
5 and they are a significant component of broker
6 responsibility and broker service.

7 Changes in tax laws, sales tax
8 collection, and vehicle value estimates require very
9 close attention to detail in tax collection on behalf
10 of the Province of Manitoba has become increasingly
11 complex. Collecting tax for each vehicle purchased is
12 a critical step in setting up a new Autopac policy.
13 Yet this could never be considered an insurance-related
14 task, but the brokers do it. Still this task, like
15 many others conducted by brokers, allows for smooth
16 revenue collection for the province and one (1) stop
17 transacting for Manitoba insurance consumers.

18 As Manitoba Public Insurance has been
19 tasked with additional responsibilities such as in --
20 identity management, Snoman passes, specialty licence
21 plates, now winter tire financing, brokers have been
22 expected to upgrade their skills in all these aspects
23 and in all these regards, increasing inventory space
24 and additional staff being hired. Brokers are at the
25 forefront line for MPI sales, and again, that is

1 expected to remain for well beyond the foreseeable
2 future.

3 Brokers are naturally and most cost
4 efficiently set up to distribute MPI products to
5 Manitobans. It's a very important point. Brokers are
6 already in most cases operating their other property
7 and casualty insurance operations out of the same
8 locations within which the MPI Autopac operations are
9 situated. Insurance brokers in Manitoba account for
10 nearly 90 percent of the insurance transactions carried
11 out in the province annually. So again, insurance
12 brokers are set up to perform those transactions
13 professionally and cost efficiently.

14 Privately, publicly, and mutually held
15 insurance organizations, or manufacturers across
16 Canada, recognize this fact about brokers and,
17 therefore, overwhelmingly utilize the services of
18 professional insurance brokers in Manitoba. A service
19 delivery model by MPI, an alternative model, without
20 the use of brokers, for example, MPI direct-to-consumer
21 using more Internet and so on, would surely prove to be
22 cost-prohibitive to Manitobans and would certainly be
23 unacceptable in terms of the kind of professional
24 services that Manitobans have come to enjoy, utilize,
25 respect and expect.

1 As a result, Manitoba Public Insurance
2 and IBAM have had to formally meet on a regular basis
3 to improve situations, to improve the services, improve
4 the relationship, and formally document the new
5 relationships going forward. Collectively, the parties
6 have been working diligently for the past sixteen (16)
7 to twenty-four (24) months to develop new operating
8 standards to further strengthen the relationship and to
9 ensure quality of service excellence of Manitoba
10 ratepayers.

11 Together, IBAM and Manitoba Public
12 Insurance have co-developed broker performance
13 scorecards. This is a recent development in order to
14 ensure that brokers are held accountable for accuracy,
15 cost containment, and overall performance. Each broker
16 office is given a performance review each and every
17 month. Top performing brokers are congratulated, while
18 poor performing brokers are given improvement targets
19 and remedial steps. The entire design is intended to
20 provide continual best practices by brokers and the
21 best of professional services to Manitoba insurance
22 consumers.

23 In short, and notwithstanding additional
24 work loads for insurance brokers, the relationships and
25 are -- operating efficiencies as between MPI, IBAM, and

1 its broker members have never been better.

2 Brokers are proud to represent MPI and
3 in many -- in -- in services to -- to Manitobans, and
4 in many communities are seen as the face of MPI, even
5 at community events outside the four (4) walls of a
6 broker office. And I can tell you a lot of Manitobans,
7 when you go to a broker office, they believe that that
8 is their insurer, whether it's MPI products or other
9 products. You kind of think of your broker as your
10 insurer. So the relationship's important.

11 What about other issues affecting or
12 having an impact on the broker distribution plant?
13 It's well documented that changes in the auto
14 manufacturing process have resulted in an increased
15 cost of repair for damaged vehicles.

16 As well, certain manufacturers have
17 created specialists or certifications required where
18 only certain repair shops are permitted to repair
19 vehicles. I can tell you again that this is the case
20 across the country with other insurers, trying to find
21 ways to cut costs and manage repairs and claims costs
22 more efficiently.

23 MPI is no exception in this regard.
24 They manage it well. They're trying to make
25 improvements, but I can tell you that all insurers

1 across the country are in the same boat in that regard.

2 MPI has no choice but to pay claims, and
3 the subsequent rising costs have to be handled.

4 Without appropriate funding, Manitoba Public Insurance
5 will be forced to cut corners elsewhere to make ends
6 meet. IBAM wants to ensure the reductions in service
7 to Manitobans and reductions in coverage options are
8 not a by-product -- product of cost containment that are
9 made necessary due to the changing automobile industry
10 in terms of managing or cutting costs.

11 IBAM is well aware that MPI has taken
12 steps over the last five (5) to ten (10) years to
13 automate where possible. But again, there is a limit
14 as to what can and should be automated.

15 Insurance brokers are necessary and the
16 most efficient when it comes to proper advice on
17 transactions. But the distribution of physical
18 inventory also remains a fact.

19 Certain transactions cause the
20 distribution of licence plates, as you're aware, or
21 stickers or registration cards for drivers, features
22 that need to be exercised. Taking of photos is another
23 type of physical transaction, physical inventory that
24 has to be managed.

25 In this regard, brokers also help Mani -

1 - Manitobans with the protection of their personal
2 information, as I've said previously. Brokers also
3 essentially perform related services for the
4 government, such as the collection and remi --
5 remission of taxes that are applicable on the
6 transactions.

7 In summary, both the industry in general
8 and MPI specifically have a shared responsibility to
9 ensure that our Manitoba customers are adequately
10 covered with the best fit insurance products for their
11 needs.

12 In order to ensure that this is the
13 case, MPI must be in a position to manage effectively
14 and to be able to respond to changes in products and
15 process, and must be able to support the brokers
16 through research, training, continuous provision to
17 provide the best in products, coaching, feedback to
18 facilitate and improve broker effectiveness.

19 IBAM believes that MPI is taking many of
20 the right actions to protect Manitobans. Dealing with
21 any rate premium deficiency is extremely important.
22 Dealing with ensuring adequate capital requirements is
23 very important. And again, we see this acra -- across
24 the country with all the insurers, no matter what type
25 environment -- publicly traded, privately held,

1 mutually held, or, in this case, a Crown corporation.

2 Taking these necessary steps will allow
3 MPI to deal with the structural challenges in the auto
4 repair industry, and as aforesaid, the climbing costs
5 related to dealing with claims.

6 A healthy MPI will also help to ensure
7 on a continuous basis that MPI's Autopac products are
8 delivered to Manitobans by the most trusted
9 professionals in the most cost-efficient manner,
10 thereby preventing ongoing further and more substantial
11 rate increases or reductions in the services provided
12 to Manitobans.

13 Thank you, and I'm open to questions.

14

15 QUESTIONS BY BOARD:

16 THE CHAIRPERSON: Thank you. Any
17 questions from the panel?

18 MR. REGIS GOSSELIN: When you speak of
19 physical inventory, you -- you mean the -- the
20 pamphlets and the licence plates and the photo ID
21 material.

22 What other physical inventory would you
23 need to have to support MPI?

24 MR. DAVID SCHIOLER: Well, certainly,
25 you know, licence plates are -- are a big one. The --

1 the taking of -- you know, a few years ago, when we
2 moved as a province to the five (5) year renewal,
3 certainly, the -- the taking of the pictures for
4 driver's licences, which is related to your insurance,
5 because it's done all at the same time now, really.

6 You know, I will add -- and you're right
7 about what you've identified and what I identified
8 earlier as those -- those physical kinds of inventory
9 things. But I think, with the advice that's being
10 offered by insurance brokers as they're doing some of
11 the physical work -- whether it be scanning in a
12 document, taking measures to personally protect the
13 client, faxing in documents to MPI, whatever the
14 standard is at the time which we're continually trying
15 to improve -- there's just a certain amount of physical
16 work that takes place.

17 I -- I can't say much beyond that, but I
18 watch it in the brokers' offices, and -- and to reduce
19 some of -- any more, that would just again take away
20 from the kinds of services that Manitobans expect and
21 need.

22 MR. REGIS GOSSELIN: Now, the
23 individual who provides a service at the counter
24 involving an MPI account, how was that individual
25 trained to provide service for MPI?

1 MR. DAVID SCHIOLER: There are
2 different courses they can take, but for sure in any of
3 the courses, there's a component of Autopac training
4 that is specific to distributing MPI products. So
5 fundamentals of insurance, for example, is a course
6 that we put on that has a specific aspect of it,
7 sometimes three (3) full days just related to
8 distribution of Manitoba Public Insurance products.

9 And -- and they're trained on the job,
10 too. Like, basically apprenticing on the job.
11 However, their manager trains them in each specific
12 case. But -- so there's almost a short internship, if
13 you want to call it that, in each broker office as they
14 train on MPI products. They can take training at MPI,
15 as well.

16 What we've added -- what we've added,
17 sir, is a -- with the scorecard approach now, if -- if
18 we're finding that -- you know, in consultation with
19 the MPI broker service's facilitator working with the
20 broker, if there are issues related to that broker's
21 services, or that broker's handling of the client and
22 the file, or the particular transaction, there are
23 remedial steps that are being put in place now to make
24 sure that those brokers get up to speed.

25 So we're more hands-on than we were

1 before, and there's improvements going on all the time.

2 MR. REGIS GOSSELIN: Now, if I have
3 issues with a broker that I frequent, and I'm not happy
4 with that broker, who gets the complaint?

5 Is it -- is it the -- is it IBAM or MPI
6 that gets the complaint?

7 MR. DAVID SCHIOLER: It can be -- it
8 can be IBAM. It can be that particular broker's owner.
9 It can be Manitoba Public Insurance. It can be the
10 Insurance Council of Manitoba. It depends sometimes at
11 what step and level of that complaint is.

12 I don't get many calls in that regard,
13 but when I do, sometimes I can refer the person back to
14 the broker owner to have a discussion with that broker.
15 That solves the problem. If it's something of a very
16 serious nature, it would go to the Insurance Council at
17 some point.

18 But -- but, sure, if some -- if it's an
19 MPI transaction, sometimes the -- the individual might
20 phone MPI and say, You know, I'm having difficulty with
21 this broker, and if they can't work it out, maybe you
22 go to a different broker. But -- so it depends on what
23 -- what type of situation it is, and what level of
24 complaint might -- it might be.

25 MR. REGIS GOSSELIN: Now, I guess I

1 can't help noticing when I go to my -- the broker that
2 I frequent, that they're, you -- you know, doing all
3 the transactions involving MPI on a computer sys --
4 computer system sitting on their desk.

5 And from the perspective of the members
6 of your association dealing with that computer system,
7 are you -- are you hearing any complaints about the
8 quality of the software that they are required to use
9 as part of those transactions?

10 MR. DAVID SCHIOLER: No. You know,
11 what -- what we have been hearing -- and MPI is well
12 aware, because we communicate a lot on this kind of
13 thing. You know, brokers -- brokers want to
14 continually provide better service to Manitobans, and
15 continually want to market better to Manitobans.

16 So sometimes we have issues where we're
17 talking to the executive, some of whom are here, about,
18 you know, how can we -- how can we pull information off
19 the system and brokers can manage that information so
20 as to market to Manitobans, sell them the right
21 products, offer the right products to them without
22 losing the integrity of protecting their personal
23 information?

24 It's -- it's not always easy operating
25 in that environment because, you know, what -- what

1 might seem simple, Well, why can't you just send --
2 send that out to all your customers because you know
3 'A', 'B', and 'C' about them, and then -- and you have
4 consents in that regard a lot of times, try and get all
5 the consents from the customers.

6 But you've got to be very careful about
7 making sure you haven't breached any of that personal
8 information. Well, how did you know that about me
9 anyways? And so we're trying to improve in that
10 regard. But we have to do that inside of -- of
11 protecting that personal information in the context of
12 all of the -- all of the new laws that have come down
13 the pike in that regard. Over the years, of course,
14 issues come up with software where we're trying to find
15 improvements. And sometimes MPI has taken the
16 initiative to do that, to put in the most cost-
17 efficient system to manage the customer with the
18 broker. And sometimes the feedback comes from the
19 broker and the broker takes the initiative to say, Hey,
20 we -- we need to do this, what about this.

21 And, of course, sometimes there are
22 complaints, and -- and we work them out and we work
23 together. But some people like to bring that forward
24 as a suggestion and some people like to bring it
25 forward as a complaint, so, in that sense, there's

1 continuous improvement going on.

2 MR. REGIS GOSSELIN: Now, MPI has a
3 very dominant market position with respect to the lines
4 of business that are competitive. I'm talking about
5 Extension and special --

6 MR. DAVID SCHIOLER: Yes.

7 MR. REGIS GOSSELIN: -- Basic
8 Extension. I can't help looking at the percentage of
9 business that's conducted by MPI relative to
10 competitive offerings. What's going on there?

11 Like, what -- why is it that MPI has
12 taken on such a dominant position relative to other
13 competitors in those lines of business?

14 MR. DAVID SCHIOLER: Well, one (1) of
15 the answers is that MPI has a good Extension product.
16 And the other answer that immediately comes to mind is
17 that you're in a broker's office doing an MPI Autopac
18 transaction. You're getting your Basic coverage. And
19 naturally, the question is asked, Do you want this
20 kind of protection, do you want that kind of
21 protection, here's what's available, and so on.

22 And a lot of times, a customer simply is
23 familiar with MPI and chooses MPI because it's just
24 something that's attached to their Basic product
25 anyways. They don't want to go and deal with another

1 insurance company in that competitive market.

2 Sometimes you'll find that isn't as much
3 the case when you have a really sophisticated client
4 with three (3) or more vehicles that really wants a
5 certain kind of coverage and wants to search the
6 competitive market to see what's out there and there's
7 even more discussion with the broker about what the
8 needs are. And that even gets in -- sometimes into
9 what your homeowner policy is and -- because now you're
10 talking about the whole package of insurance for the
11 customer. And so that can cause some of that kind of
12 thing.

13 Also, MPI certainly offers a competitive
14 commission on the Extension product. And insurers
15 overall in Canada, if you look at the Basic, the 2
16 percent on the Basic that brokers receive, that pales
17 in comparison to what -- what in -- insurance brokers
18 receive from privately held or publicly traded
19 insurance companies across the country as commissions
20 on -- on the premium collected.

21 But overall, MPI is competitive in that
22 regard, so. But I think -- I think the answer -- the
23 real answer to your question is that people are
24 comfortable with MPI. They feel that's -- that's who
25 they do their business with on their car insurance

1 anyways, and so I might as well just buy what they
2 have.

3 MR. REGIS GOSSELIN: You mentioned the
4 privacy issues related to the business you conduct.
5 And I guess one (1) of the things I want to know about
6 is the Chinese wall that would exist between your
7 insurance business and the other lines of business that
8 you have. So in other words, I deal with a broker. I
9 buy MPI insurance through the broker. The broker has
10 my data, selling a mutual fund or an ETF or TFSA.

11 You know, what -- what's that -- can you
12 describe that wall that prevents that from happening?

13 MR. DAVID SCHIOLER: Yeah, I -- I can
14 try. First of all, important to remember that the
15 insurance brokers that I'm responsible for and that are
16 members of IBAM are property and casualty insurance
17 brokers; they're not on the life side of health side of
18 -- of insurance, not in the financial, wealth
19 management side.

20 Now, some brokers -- a few brokers do
21 have some of those operations in their offices, so I'm
22 aware of that, but we don't act for them in any of
23 those aspects. But whether it's looking at the
24 customer information and marketing to them with respect
25 to their auto insurance or marketing to them or talking

1 to the customer about home insurance of business
2 insurance, again, it gets, a lot of times, down to the
3 comfort level and discussions that the broker has had
4 with the particular client.

5 For instance, if you and your broker had
6 that discussion where you said, I don't mind signing a
7 consent form, in fact, and I -- in fact, I want you to
8 make sure that you know as much about me as possible
9 and I'm going to give you that information. I'm going
10 to give you more information that's in the MPI system,
11 and -- and I want you to market to me properly, sell me
12 the right products, know as much about me as you can.
13 So that certainly breaks down the Chinese wall, whether
14 it's in the kinds of products that you mentioned or
15 even the home insurance or commercial insurance.

16 And -- and again, getting back to your
17 earlier question. Brokers are looking for, inside of
18 the context of that privacy issue and the -- and the
19 personal information protection, brokers are always
20 looking for, you know, how can we open this up? How
21 can we properly market to and service our clients? The
22 more information we have about them, the more we can
23 give them the right product and make sure they have the
24 right insurance.

25 So do I think personally that I'd like

1 to see the -- the personal information protection be
2 relaxed somewhat? Yes, but it does get sort of relaxed
3 over time. When PIPEDA first came out on a national
4 basis, and I know Ms. Neville would be aware of this,
5 it -- it was a -- people were afraid that they wouldn't
6 even be able to give their -- their phone number or --
7 or address, or it would be leaked to someone or
8 whatever.

9 And there was a -- a bit of a fear
10 factor that we have to protect this information at all
11 costs. And companies were having to put these measures
12 in place and -- and identify a personal protection
13 information officer in their companies. And -- and
14 people were going a little overboard. But that's a
15 natural reaction. Over time it gets relaxed a bit,
16 common sense prevails, and you're able to have the
17 discussions with your customer, break down the Chinese
18 wall somewhat, and be able to service your customer
19 properly.

20 But in terms of breaches to the Chinese
21 wall that are not supposed to happen, I think there's
22 been a -- a tremendous aspect of integrity exercised by
23 MPI and brokers in that regard. We don't -- I -- I
24 don't get feedback from clients or customers on
25 anything that's happened in the ten (10) years I've

1 been at my job. And brokers aren't hearing a lot of
2 that either.

3 THE CHAIRPERSON: Ms. Neville...?

4 MS. ANITA NEVILLE: Is this on? Yeah.
5 Thank you for coming this morning, Mr. Schioler. This
6 is the first time that you and/or your organization
7 have appeared since I've been on the panel. Let me
8 just say that Mr. Gosselin has preempted me with some
9 of the questions I was going to ask. But I'm going to
10 just try a few other things.

11 The fact that you're here this morning,
12 does it indicate that you anticipate -- I mean, you've
13 spoken at length about the effectiveness and the good
14 relations with MPI.

15 But does the fact that you're here this
16 morning reflect a concern that MPI may be taking over
17 some of the brokers' responsibilities and roles?

18 MR. DAVID SCHIOLER: No, not at all.
19 In fact -- and it -- it's a good question, because in
20 the life of MPI when I took on this job approximately
21 ten (10) years ago, I -- I did hear quite a bit about,
22 in the broker force -- from brokers, some fear about
23 MPI is going to go direct to the customer, they're
24 going to eventually get rid of brokers and so on, and
25 that's why they're going to cut the commissions. And

1 there were -- there was fear in the system.

2 And we worked very, very hard and very
3 closely with MPI over the last number of years to take
4 that fear out of the system, to work collaboratively
5 together to build the relationship to the point that
6 we're better serving Manitobans for sure, even though
7 we've taken some costs out of the system.

8 And we're building things together, like
9 the new operating standards. And operating standards
10 are those, you know, everyday measures that are taken
11 in transactions and how the parties work together, the
12 broker and MPI. How does the broker facilitator at MPI
13 work with the broker and the broker office, and how is
14 the transaction conducted the most efficiently? And
15 again, what are those remedial measures to fix things
16 when they go wrong

17 All of these have been improvements.
18 Also, there's been a commitment by MPI over the last,
19 you know, eight (8) years particularly to ensure that
20 brokers are going to be, for well beyond the
21 foreseeable future, the distributor of MPI products.

22 MPI has a commitment, in fact, that out
23 of its own service centres, it will do no more than 4
24 percent of the same types of transactions that brokers
25 will perform. So MPI pushes people from the service

1 centres, so to speak, to go to utilize the services of
2 a professionally trained, licensed broker.

3 It's more convenient, there are many
4 location, as we said, and they're also licensed to
5 serve them with their other products, their
6 homeowner's, and their commercial, and so on.

7 So again, good question, because there
8 had been that kind of thinking in the system. But it's
9 -- it's been, I'm going to say, 99 percent removed.
10 It-- it's a very secure relationship.

11 My appearance, or our appearance here,
12 is really, again, to ensure that the Board looks at all
13 these things that I'm speaking of in the relationship
14 that brokers have with Manitobans and the service they
15 provide, the relationship that IBAM, on behalf of its
16 brokers, has with Manitoba Public Insurance to ensure
17 that those services are proper going forward. And
18 brokers are a good check and balance to make sure the
19 products are right that Manitoba Public Insurance
20 manufactures as well, because they know what the
21 customers need. They give the customers that feedback.
22 So we -- we need to have a -- a healthy Manitoba Public
23 Insurance.

24 And I spoke to you a little bit about
25 insurers across Canada, and I can tell you that all of

1 them are going through this same type of thing with
2 capital requirements and the -- the premiums they
3 should be charging in the market and so on, so -- and -
4 - a inside of cost containment at the same time.

5 But good question. But I think now,
6 it's a very collaborative relationship because we've
7 realized that Manitobans wanted brokers. MPI worked
8 hard to make sure that brokers felt more comfortable in
9 that regard, and -- and we're building things together
10 for Manitobans. Before, it was more of a clash.

11 MS. ANITA NEVILLE: You'd -- you've
12 referenced, and we've heard it from MPI before, the
13 structural changes that are going on in the industry.
14 And you've talked in response to Mr. Gosselin's
15 questions about training of brokers.

16 Given the -- well, is there mandatory
17 training for brokers? Are they required to do 'X'
18 number of courses in order to maintain their licence?
19 And is the organization -- or is it a self-governing
20 organization? Does it have any similarities to
21 something like the Law Society?

22 MR. DAVID SCHIOLER: M-hm. IBAM -- in
23 fact, we have new offices now where we have a classroom
24 that seats up to forty (40) people or -- or eighty (80)
25 to a hundred (100) people theatre style, and we are the

1 recognized educator of insurance brokers in Manitoba.

2 There is a Canadian course called the
3 Canadian Accredited Insurance Broker. IBAM administers
4 that. It's a four (4) level course, CAIB 1, 2, 3, and
5 4, and achieving certain levels of the CAIB will help
6 you achieve certain levels of holding a licence in
7 Manitoba.

8 But you can take the Fundamentals of
9 Insurance course or the CAIB 1 course, the first level
10 of -- of the Canadian Accredited Insurance Broker
11 course, and you can become a -- a level 1 licensed
12 broker in Manitoba. The Insurance Council actually
13 issues you the licence after you've satisfactorily
14 passed your exam.

15 Then you can become a -- with more
16 education, a level 2 broker. And a level 2 broker has
17 stipulations like, now you can go outside the office
18 and sell to clients and sell certain types of products.

19 And then, if you're a level 3 broker,
20 you then can own a brokerage. And you have to have a
21 level 3 broker in your brokerage to -- to own a
22 brokerage. So -- so that's a necessity.

23 Again, you have to -- after you've
24 achieved a certain level of education, you have to work
25 for two (2) years before you can go back and take your

1 level 3 and become -- become an owner in that respect
2 ever -- after achieving level 3.

3 We are not self-regulated, specifically
4 speaking, in terms of comparing it to the Law Society.
5 We have talked to the government on occasion in
6 Manitoba to move to that kind of model.

7 The model that exists now, the Insurance
8 Council is appointed by the Province of Manitoba.
9 There's a life council of six (6) members, I think it
10 is. There's an adjusters council of six (6) members.
11 And there's a property and casualty side. There are
12 two (2) brokers. Sometimes there are three (3).

13 I think two (2) brokers on the Insurance
14 Council on the property and casualty side right now,
15 two (2) company representatives, and two (2) laypeople.
16 And there's an executive director of the Insurance
17 Council who reports to the Superintendent of Insurance
18 who reports to the Minister of Finance, and so on.

19 So there is broker involvement in the
20 licensing requirements and so on. And they are there
21 to provide discipline where -- where necessary, but
22 mostly to help improve educational and licensing
23 requirements. There is an ongoing requirement for
24 brokers that there's credit hours that must be achieved
25 each year, and continuing education to be able to

1 maintain your licence. And --

2 MS. ANITA NEVILLE: Thank you.

3 MR. DAVE SCHIOLER: -- similar to the
4 Law Society now. They never used to have that, the Law
5 Society.

6 MS. ANITA NEVILLE: Just -- just one
7 (1) -- one (1) last question to follow up on the
8 training, or the Extension that is available to
9 customers. Do customers, for the most part, know that
10 they have options in the Extension, or do they think
11 MPI is the only game in town on that?

12 MR. DAVE SCHIOLER: Again, that's a
13 good question. The -- the customer knows that there
14 are options as much as they know or -- coming in, or as
15 much as the broker advises them of the different kinds
16 of options. And some brokers do that more than others.

17

18 Some brokers are more connected to other
19 insurers in many ways with their contracts with
20 insurers, and want to provide some of those products,
21 or make people aware of those products. Other brokers
22 maybe believe more in the MPI product, and therefore
23 offer that -- offer the other product also but say,
24 Hey, I think this one might be better.

25 So yet intuitively I think a lot of

1 Manitobans, again they -- they believe MPI is the go-to
2 insurer for their auto insurance products, and they
3 just feel comfortable with MPI, and then buy their
4 Extension product through -- through the broker which
5 is an MPI product, as well.

6 MS. ANITA NEVILLE: Thank you. Thank
7 you very much.

8 MS. SUSAN PROVEN: Mr. Schioler, I'm
9 sort of interested in the financial situation of these
10 brokers.

11 MR. DAVE SCHIOLER: M-hm.

12 MS. SUSAN PROVEN: And in the last many
13 years we've seen some changes, that 5 percent reduction
14 to 2 percent in terms of premiums sold. Did you -- you
15 did mention though some other alternatives that are
16 being conducted; jobs, responsibilities, like the
17 Snoman passes, and the snow tire program. You
18 mentioned also the photo ID, collection of taxes when
19 someone gets a new car.

20 MR. DAVE SCHIOLER: Yeah.

21 MS. SUSAN PROVEN: Do they receive some
22 compensation when they conduct all these tax -- tasks?
23 Like what -- what happens there?

24 I just want to know, you know, how much
25 has the revenue fallen, and how much maybe are they

1 making in terms of these new tasks?

2 MR. DAVE SCHIOLER: M-hm.

3 MS. SUSAN PROVEN: Thanks.

4 MR. DAVE SCHIOLER: Well, revenue has
5 risen over the years if you just look at the aggregate
6 dollar amount that goes to brokers. It would have to
7 because there are more brokers than there were before.
8 Even with consolidation, there are not that many fewer
9 brokerages but certainly not fewer brokers, so there
10 are more employees. And, you know, just the basic cost
11 of living would -- would cause, you know, some increase
12 in -- in revenues.

13 But -- it's another good question.

14 Brokers don't -- if you look at a particular
15 transaction, you can say brokers get paid for
16 transaction A. There's specific recognition on the
17 Basic that when they sell that product they get a
18 commission on it. They may not for a Snoman pass or
19 some other service that they provide, but they
20 recognize right now that they're providing that out of
21 the office as one of the overall services they do in
22 their distribution.

23 The broker philosophy right now in
24 working with MPI, and working with other insures, is
25 that overall we're being compensated to a level that we

1 can manage. And so if something becomes more material,
2 and let's say it's a Snoman pass for just the sake of
3 argument, if all of a sudden Snoman passes became more
4 complex and brokers are taking a half an hour or forty-
5 five minutes (45) to do each Snoman pass, then we'd
6 have to have a discussion with the Government or MPI,
7 wherever is responsible for that to say we have to work
8 that compensation for that particular type of
9 transaction back into the system, because it's just
10 taking way too long.

11 So, you know, there are incidental fees
12 for certain kinds of things, like address changes and
13 those kinds of things, but the -- the -- they're very
14 small if you -- if you attach it to a particular
15 transaction. But again, overall, if a broker is able
16 to sell the Basic product to the customer and the
17 broker is able to manage that Snoman pass effectively
18 where he or she is not really being directly
19 compensated for it, and where the broker has upselled
20 on the Extension coverage to make sure the client has
21 what they need, and they've collected a certain amount
22 of revenue, and they've managed their cost efficiently,
23 and they're doing their other work properly with their
24 other insurers and making some money there, they can
25 maintain a viable operation and service Manitobans.

1 MR. ALLAN MORIN: Mr. Schioler, I
2 wonder if you could tell me a little bit more about the
3 scorecard approach. In particular, who kind of
4 establishes the service standards, and how do you
5 determine noncompliance?

6 MR. DAVID SCHIOLER: M-hm. Good
7 question. The -- the long answer is I'd have to sit
8 down with you to go over the -- the intricacies of --
9 of all the steps that are in the scorecard approach.
10 When -- when there is a -- a recognized flaw or breach
11 in -- in a transaction, it -- particularly if it's
12 something that's a repetitive or a redundant on an
13 ongoing nature, the broker just isn't getting it, isn't
14 doing things right, or together with an MPI employee,
15 somehow they're not getting it right, we've -- we've
16 put in recognition factors. How does that recognize?
17 At what point should someone jump in and do something
18 about this? Some of it, Mr. Morin, is common sense,
19 and some is -- you know, we've identified that this has
20 been done wrong three (3) times, and it's a -- a
21 substantial issue, so we've got to correct it.

22 And then, again, we've put in remedial
23 measures where the MPI employee, before it even
24 escalates to management, will work together wor -- with
25 the broker to try and remedy that. A -- an MPI

1 employee will go out to see -- a field manager will go
2 out to see the broker to make sure they can -- they can
3 correct things.

4 If -- if things haven't been corrected
5 after certain measures have been taken, we've started
6 to put in now, and this part's going to be sort of a
7 new thing, actual remedial training. A broker can go
8 back -- we're going to do some of that at the IBAM
9 offices, some's contemplated down at MPI, where the
10 broker can come back in and say -- go through all these
11 steps to be educated and take the remedial steps
12 necessary to -- to put things right and do things
13 right.

14 We -- we tried to -- we've tried
15 together to move on a positive system where we can fix
16 things rather than try and penalize brokers or penalize
17 MPI employees. I mean, our philosophy at the brokerage
18 level if you talk to the owners is, If I got a bad
19 employee that keeps doing things wrong, they're going
20 to be gone anyways.

21 So again, a lot of steps in there
22 depending on what -- what kind of breach it is and how
23 serious the -- the nature of the -- the flaws in the
24 system are.

25 MR. ALLAN MORIN: Yeah, thank you.

1 THE CHAIRPERSON: Okay, I'd like to
2 call upon Ms. Kalinowsky, from MPI, to do a cross-
3 examination.

4 MS. KATHY KALINOWSKY: Thank you very
5 much, but we have no cross-examination for Mr.
6 Schioler, who we're very familiar with.

7 THE CHAIRPERSON: Ms. Grammond...?
8

9 CROSS-EXAMINATION BY MS. CANDACE GRAMMOND:

10 MS. CANDACE GRAMMOND: Thank you, Madam
11 Chair. Mr. Schioler, I just have a couple of questions
12 for you. The first is this. In your direct evidence,
13 you indicated that if MPI were to move to a direct-to-
14 customer approach, it would be cost-prohibitive. I've
15 heard you -- your evidence about the service aspect and
16 convenience for the public.

17 Can you talk a little bit more about the
18 cost piece and why it -- it's IBAM's view that that
19 would be cost-prohibitive?

20 MR. DAVID SCHIOLER: Yeah. A couple of
21 important things there, I think, that are pretty
22 obvious to me just because I'm in the -- in the game
23 every day and I've dealt with these kinds of things.
24 And -- and we've had these kinds of discussions when we
25 talk about measures of cost for MPI and brokers and so

1 on.

2 Firstly, the -- the brokers do have, as
3 I mentioned, approximately three hundred (300)
4 locations in Manitoba across the -- the province to
5 service customers properly in convenient locations, and
6 that includes small centres in the province as well.

7 Were Manitoba Public Insurance to
8 physically install those amounts or kinds of locations
9 across the province, it would be an enormous cost. I
10 haven't actually done the calculations in my head, but
11 I just know that it would be a huge cost for the
12 province and citizens of Manitoba just in terms of
13 setting those things up physically with capital costs,
14 never mind the ongoing staffing that would be required
15 for those places.

16 And that's linked to something I said in
17 my direct testimony as well. Remember that the -- the
18 brokers are already set up in -- in these locations to
19 do property and casualty insurance. A lot of the
20 brokers in Manitoba will do 50 percent MPI Autopac
21 transactions for their revenue and 50 percent other
22 property and casualty insurance.

23 So in that sense their offices, Ms.
24 Grammond, are a shared cost between the Autopac factor
25 and -- and the other insurance. So it -- it becomes

1 more cost efficient when you look at the overhead cost,
2 the locational cost, and the cost of doing business.
3 It's shared between other insurers with the -- within
4 the brokerage.

5 MS. CANDACE GRAMMOND: Thank you. Just
6 one (1) other very simple question.

7 What's a Snoman pass? I don't think we
8 have that on the record.

9 MR. DAVID SCHIOLER: Yeah. Well, I --
10 I -- you know, I don't know the detail, but I've never
11 gotten one. But you -- you go in broker office and --
12 and you say, I need a Snoman pass for my Skidoo or
13 whatever the heck it is. I -- I mean, I -- I honestly
14 don't know that much about it.

15 And it's -- it -- it's -- but, you --
16 you know, it's an interesting -- it's an interesting
17 question just in this sense that I think -- I think
18 brokers will be called upon by the Province of Manitoba
19 to do more and more distribution of those kinds of
20 things that are required -- park passes, Snopasses --
21 that -- that they're set up to do just because of the
22 numbers of the locations and the convenience for
23 customers again. So it'll move beyond just insurance.

24 MS. CANDACE GRAMMOND: So a Snoman pass
25 is something for an off-road vehicle, like a

1 snowmobile? It hasn't -- it's not for a -- a standard
2 private passenger car?

3 MR. DAVID SCHIOLER: Yeah, that's my
4 understanding.

5 MS. SUSAN PROVEN: Mr. -- I --

6 MR. DAVID SCHIOLER: Again, I don't
7 know the detail on it.

8 MS. SUSAN PROVEN: -- I'm thinking that
9 it has to do with the -- the fact that we have trail
10 systems --

11 MR. DAVID SCHIOLER: Yeah.

12 MS. SUSAN PROVEN: -- that are
13 authorized and controlled by, you know, this
14 organization. And, obviously, they have to be, I don't
15 know, funded or mon -- monitored.

16 MS. CANDACE GRAMMOND: Thank you.
17 Madam Chair, I have no further questions.

18 MR. REGIS GOSSELIN: You know, I wonder
19 if we couldn't ask Mr. Guimond, what is a Snoman pass?

20 MR. DAN GUIMOND: Yeah. Snoman is a --
21 an association that is responsible for all the --
22 grooming all the trails that snowmobile use to -- to
23 snowmobile across Manitoba. And to be able to access
24 their trails you have to buy a Snopass. That's how
25 they -- they fund the -- the ability to create all

1 these trails and groom them and make sure they're
2 maintained and -- and have a -- a -- it also helps with
3 sa -- you know, safety and so on with the signs. They
4 put signs and stuff.

5 MR. DAVID SCHIOLER: Just like I said.

6 MS. CANDACE GRAMMOND: Madam Chair, I
7 don't know if any of the other Intervenors have
8 questions for Mr. Schioler. None of them seem to be
9 getting out of their seats, but --

10 THE CHAIRPERSON: Well, I'll go around
11 and check.

12 MS. CANDACE GRAMMOND: Yeah.

13 THE CHAIRPERSON: Does -- Ms. Manda --
14 Menzies, do you have some questions?

15 MS. MEGHAN MENZIES: CAC (Manitoba) has
16 no questions. Thank you.

17 THE CHAIRPERSON: Mr. Oakes...?

18 MR. RAYMOND OAKES: No, we do not.
19 Thank you.

20 THE CHAIRPERSON: Ms. Young...?

21 MS. ANGELE YOUNG: No. CAA (Manitoba)
22 does not.

23 THE CHAIRPERSON: And, M. Monnin?

24 MR. CHRISTIAN MONNIN: Thank you, Madam
25 Chair. I just have a couple of questions.

1 THE CHAIRPERSON: Okay. Thank you.

2

3 CROSS-EXAMINATION BY MR. CHRISTIAN MONNIN:

4 MR. CHRISTIAN MONNIN: Mr. Schioler, I
5 act on behalf of Bike Winnipeg. I'm a long-time
6 listener and first-time caller, and the questions I
7 have for you today just pertain to road safety.

8 And is -- is there any expectation on
9 behalf of IBAM and its members to -- to take into hand
10 any of the road safety initiatives that MPI may have?

11 MR. DAVID SCHIOLER: No one's
12 approached us in that regard. I can say something I
13 said from the outset, that while we at IBAM act in the
14 interests of insurance brokers, we always do so with
15 consumers and consumer costs in mind and consumer
16 service in mind.

17 So I'm always willing to -- we're --
18 we're taking on -- you know, considering new issues all
19 the time. So that's just never been brought to me.
20 But we -- we'd obviously entertain it if there's
21 anything that makes sense for us to do about it, and if
22 it's in the interests of brokers servicing clients.

23 MR. CHRISTIAN MONNIN: And I think I
24 know the answer, but I just want to clarify. It is my
25 understanding, therefore, that even with -- at the

1 highest level of -- of road safety initiatives from
2 MPI, which would be awareness campaigns, is there any
3 expectation for IBAM and its members to have any of
4 that literature or any of those posters, things of that
5 nature, put up in their locations?

6 MR. DAVID SCHIOLER: Well, there may be
7 some now. I don't know -- I honestly know every
8 pamphlet that MPI puts out into the brokers offices.
9 So there could very well be some material about road
10 safety.

11 You know, I go in a broker's office and
12 I see a bunch of pamphlets, a lot of which have MPI all
13 over it, and I flip through some of it. But I -- and
14 I've seen road safety stuff a lot. I can't remember if
15 I've seen it one (1) of those pamphlets or not. So it
16 may be out there already.

17 Brokers are certainly willing to put
18 things like that in their offices. They do it all the
19 time.

20 MR. CHRISTIAN MONNIN: Thank you. No
21 further questions.

22 THE CHAIRPERSON: Okay. Sorry. Thank
23 you. Sorry, Mr. --

24

25 MR. REGIS GOSSELIN: Yes. There was a

1 -- there was a broker -- I vaguely recall an article in
2 the Free Press, or a couple of articles in the Free
3 Press, relating to a broker who I believe lost his
4 licence because of difficulties.

5 And was that an action that was taken by
6 -- by IBAM, or was that taken by some other body within
7 Manitoba? There was a -- somebody was offering MPI
8 products and -- and so on in Superstores.

9 MR. DAVID SCHIOLER: Yes.

10 MR. REGIS GOSSELIN: And was that an
11 action taken by IBAM, or was that taken by some other
12 regulatory body?

13 MR. DAVID SCHIOLER: I believe I'm
14 speaking to the party -- about the party that you've
15 identified without naming that party to be on the safe
16 side, because you haven't named it. I'm -- I'm -- but
17 I'm going to try and answer that as best I can.

18 I'm aware that recently a party such as
19 the one you identified had MPI licences revoked, and
20 that would have been an MPI measure. MPI is the one
21 that issues licences to the brokers to distribute MPI
22 products.

23 If there are other issues -- and again,
24 we're being somewhat hypothetical here, but I'm trying
25 to answer as best I can. If there are other issues

1 that are before the Insurance Council or that are
2 before the courts, I can't speak to them. There very -
3 - there may very well be, but I'm not aware of them.

4 MR. REGIS GOSSELIN: But in other
5 words, you're not the disciplinary body.

6 MR. DAVID SCHIOLER: That's right. And
7 -- and again, to Ms. Neville's question, we have talked
8 to government about becoming more self-regulatory. And
9 there are two (2) broker members on the Insurance
10 Council, property and casualty side, but we're not
11 there yet. And, no, IBAM was not involved in -- in
12 disciplining in that sense.

13 MR. REGIS GOSSELIN: So -- so, for
14 example, I'm an Autopac -- I'm, sorry, an MPI client,
15 and I, you know, go to my -- my broker and I put down
16 five thousand dollars (\$5,000) worth of cash to pay my
17 account --

18 MR. DAVID SCHIOLER: Yeah.

19 MR. REGIS GOSSELIN: -- to pay my -- my
20 charges for MPI. That money would be protected how in
21 case something was to go wrong with the transaction, my
22 money disappears?

23 Is that through the Insurance Council,
24 or is that through IBAM, or who would be responsible
25 then?

1 MR. DAVID SCHIOLER: Well, initially,
2 the money is going into the broker's hands and is
3 protected by the broker's integrity and put into the
4 broker's account. And brokers have trust accounts for
5 monies that come as premiums.

6 They have general accounts for their
7 operations, and -- and although there are similarities
8 in how brokers manage the funds, the -- the broker
9 operations are somewhat different. But the integrity
10 of the broker is number 1. The trust you have in your
11 broker, and that's the -- that's usually the -- the
12 benefit of -- of brokers, is that there is trust there.
13 So when that trust is breached over something like
14 that, it -- it's taken very, very seriously, because it
15 -- it rarely happens.

16 But that's the first safeguard. If --
17 if something goes awry, you know, there's safeguards
18 that MPI might have in place. There's legal
19 safeguards, and there's the Insurance Council of
20 Manitoba.

21 In -- in terms of recovery of the funds,
22 again, you know as well as I do that that -- that
23 depends on the particular case at hand, and where those
24 funds might have gotten to, and was there fraud
25 involved, or was it just a mistake, or what happened,

1 so.

2 THE CHAIRPERSON: Okay. Thank you very
3 much, Mr. Schioler. Ms. Grammond, can you help me?

4 MS. CANDACE GRAMMOND: I think the next
5 item on the agenda was Mr. Monnin on behalf of Bike
6 Winnipeg. So maybe what we can do is just take a two
7 (2) minute break and allow Mr. Monnin to come and sit
8 in the front row so that he's not cross-examining from
9 behind a pillar.

10

11 --- Upon recessing at 10:10 a.m.

12 --- Upon resuming at 10:14 a.m.

13

14 THE CHAIRPERSON: Okay, thank you very
15 much. I'd like to call upon M. Monnin right now, from
16 Bike Winnipeg, to give his cross-examination.

17 MR. CHRISTIAN MONNIN: Thank you, Madam
18 Chair. Ms. Menzies has one (1) thing that she would
19 like to put on the record before I proceed.

20 MS. MEGHAN MENZIES: Yes. Thank you
21 very much. So as -- I think it was last Wednesday CAC
22 (Manitoba) was referring to the monetary policy report
23 of October 2014, and so we just took a copy. And we
24 thought that we -- we should put it on the record as an
25 exhibit. So that would be introduced as Exhibit CAC-

1 19. Thank you very much. And thank you, Mr. Monnin.

2

3 --- EXHIBIT NO. CAC-19: Monetary police report of
4 October 2014

5

6 MPI PANEL 2 CONTINUED:

7 DAN GUIMOND, Previously Sworn

8 LUKE JOHNSTON, Previously Sworn

9 HEATHER REICHERT, Previously Sworn

10

11 CROSS-EXAMINATION BY MR. CHRISTIAN MONNIN:

12 MR. CHRISTIAN MONNIN: Thank you. I'd
13 like to thank you for accommodating my schedule. I
14 know that -- to allow me to be cross-examining this
15 morning. I'd like to welcome the panel this morning,
16 and I do have a few questions.

17 My questions are going to be, and I
18 don't think entirely surprising, anchored in with
19 regards to Undertaking number 6, which is now Exhibit
20 48. I was relieved to see that come into my email box
21 over the course of the weekend because I thought, Geez,
22 what am I going to be asking the actuary. Now I
23 actually have questions to ask.

24 And if we could turn to Exhibit 48,
25 Attachment A. And, Diana, I'm not sure if you're able

1 to put that on the -- of course you are. Thank you.

2 And this is the draft preliminary
3 outline Basic loss prevention strategy and framework
4 for Manitoba Public Insurance. And I just want to
5 understand. This is -- this is the new construct that
6 we had discussed the last time I was asking questions.

7 Is that correct?

8 MR. DAN GUIMOND: It's the proposed
9 approach, yes.

10 MR. CHRISTIAN MONNIN: And, Diana, if
11 you could go to page 4 of that document. Excellent.
12 The document has two (2) numbers on it. There's PDF
13 page 4, and that's the one that I'm working from, and -
14 - but that's also page 3 from -- from the draft.

15 And my -- my first question pertains to
16 the second paragraph on the purpose of the document
17 page. And I just want to understand a little bit
18 philosophically what -- what is being said here. And
19 it says:

20 "From a Basic loss prevention
21 standpoint, understanding frequency
22 and severity of claims and strategies
23 to reduce claims costs are legitimate
24 opportunities for Manitoba Public
25 Insurance and other road safety

1 partners to collaborate."

2 And I just want to understand what
3 legitimate op -- what -- what is the Corporation
4 referring to here when they say, "legitimate
5 opportunities"?

6 And before you answer that question, is
7 -- is understanding the frequency of severity of claims
8 a legitimate opportunity, or being able to collaborate
9 with road safety partners legitimate opportunities?

10 MR. DAN GUIMOND: For me it's a bit of
11 both. And I think the -- in -- in terms of these
12 hearings, I -- I think you -- we've talked a little bit
13 about the taxi loss ratio in terms of the premiums that
14 -- that taxi -- the taxi insurance users have to pay
15 and how maybe they should be part of the Basic fleet
16 rebate program.

17 And so it's -- it's both because we
18 would have to work with these companies to -- to be
19 able to achieve any desired outcome in terms of
20 frequency and severity.

21 MR. CHRISTIAN MONNIN: Seeing as
22 they're both -- the issue of understanding the
23 frequency severity of claims, would you agree with me,
24 Mr. Guimond, if I suggest that, rather than being an
25 opportunity, that's -- that's an obligation of the

1 Corporation pursuant to the legislation?

2 MR. DAN GUIMOND: I think it's an
3 obligation to try. The taxis used to be in the fleet
4 rebate program, and then through the owner/operator
5 were -- were not part of the program anymore. And we
6 know the loss pre -- the loss ratio of -- of taxis is -
7 - is much higher today.

8 So if -- it takes two (2) to tango, so
9 we can try. But according to the law, you're not
10 always able to -- to impose or -- or force things to
11 happen.

12 MR. CHRISTIAN MONNIN: And -- and I
13 guess that -- that understanding that it's a bit of
14 both would be anchored in the next sentence, which
15 reads:

16 "In fact, the success of a broad
17 based loss prevention strategy,
18 although led by Manitoba Public
19 Insurance, must be underscored with a
20 government structure that reflects
21 shared responsibility within the road
22 safety community in Manitoba."

23 And the question I have there is -- is
24 where does the -- where does MPI -- where does it
25 anchor or where does it get this -- this whole notion

1 of the shared responsibility within the road safety
2 community -- community? And the reason why I ask that
3 is, I go back to the Act.

4 And isn't it really your obligation,
5 first and foremost? And 'yours', I mean, the
6 Corporation?

7 MR. DAN GUIMOND: Well, I'd like to be
8 able to make sure that we put context to this document.
9 I -- I think you're diving into it quite a bit and I'm
10 not sure that we're going to be able to -- because it's
11 a draft. And when we work with our stakeholders to be
12 able to finalize this document and -- and the meaning
13 of the words and so on, I think we have to be careful
14 about how -- how much we talk about it in this forum
15 here at this point in time.

16 I mean, it's a -- it's a draft. We're
17 putting this on the table and assuming -- I -- I have
18 to wait to see what the Regulator wants to do. If they
19 agree that this strategy of creating a -- a funding
20 umbrella where road safety rolls into it so we can
21 optimize -- because at the end of the day, you know,
22 we're trying to deal with optimizing the Road Safety
23 Program, which we can't do on its own because of all
24 the intangible things associated with road safety.

25 So we're trying to create an umbrella

1 that road safety would roll under. We'd be linked to
2 an ROI. That's the primary goal of what we're trying
3 to do here, trying to satisfy the Regulator's need to
4 have a funding envelope that's optimized that can
5 demonstrate a return on investment. That's what we're
6 trying to do.

7 Assuming the Regulator accepts this
8 approach, we're going to have meetings with
9 stakeholders. And then we're going to see how this
10 document evolves and how it ends up, and what the
11 meanings of the word really means. So I -- I -- you
12 know, just -- I would just caution it's a bit premature
13 to -- to dealing to this from a philosophical
14 perspective or in too deep. The first thing is to --
15 let's -- let's agree on is this an acceptable approach.
16 And then I believe at -- at next year's GRA we'd be
17 much more positioned to answer those questions.

18 MR. CHRISTIAN MONNIN: I appreciate the
19 answer. However, what I'd suggest is -- is that this
20 is exactly the -- the arena and the -- and the
21 opportunity to -- to dive into this document on behalf
22 of my client, an Intervenor who has a direct interest
23 in road safety. And I would suggest to you, Mr.
24 Guimond, that being on the record in front of the
25 Regulator who is being asked to approve this, this is

1 exactly the opportunity to dive in, to make sure we
2 flesh out the draft document.

3 Would you agree with that?

4 MR. DAN GUIMOND: No, I -- I do not
5 because we're not asking the Regulator to approve the
6 document. We're asking the Regulator if this is an
7 approach that's acceptable to the Regulator to be able
8 to demonstrate an ability to optimize the funding
9 envelope. And assuming that this is acceptable, then
10 the document will be finalized and next year -- next
11 year is when that -- that would happen, not -- not
12 right now. That's not what we're asking for right now.
13 What we're asking for right now is an agreement to an
14 approach.

15 MR. CHRISTIAN MONNIN: And -- and the
16 questions that I have this morning are going to test
17 the parameters of this proposed approach, and I'm going
18 to proceed with those.

19 Who wrote this document?

20 MR. DAN GUIMOND: It's an effort by our
21 MPI staff.

22 MR. CHRISTIAN MONNIN: And when you
23 refer to the road safety -- or when the document refer
24 -- refers to the "road safety community in Manitoba,"
25 do I understand correctly that those would be the other

1 loss prevention stakeholder groups found at page 11 of
2 this document?

3

4 (BRIEF PAUSE)

5

6 MR. DAN GUIMOND: I -- I would view
7 this as a -- as a preliminary list. But, yes, right
8 now what we're trying to say is -- is who we would
9 bring into the fold, so to speak, as this evolves.

10 MR. CHRISTIAN MONNIN: And have any of
11 these road safety community members in Manitoba, other
12 than those who are Intervenors in this hearing, have
13 they been made aware of this is the way that MPI is
14 proposing to -- to move forward?

15 MR. DAN GUIMOND: No, because until the
16 Regulator gives us the -- the go-ahead that this is a -
17 - an approach that would work for them, we're -- we're
18 not beyond this point right now.

19 MR. CHRISTIAN MONNIN: Diana, could you
20 please move to -- or, sorry, go back to page 5 of the
21 document, please? And if you can scroll down to the
22 last paragraph? That's good. Thank you.

23 And this -- this language is -- is found
24 under the heading of, "Loss Prevention Defined." And
25 the last paragraph is:

1 "Less clear are road safety
2 initiatives which are much more
3 difficult to attribute directly to
4 reductions in collisions and claims
5 because of the complexity of road
6 safety issues and the many factors
7 that ultimately influence road
8 collision frequency and severity."

9 That answer goes over to page 5.

10 Now, that particular language, we can
11 find it also, I think, verbatim in the application.
12 I'm not going to ask Diana to go there, but at page 9
13 of SM.3. And I -- I just want to understand.

14 Is it MPI's position that there -- there
15 simply are no proven road safety initiatives that lead
16 to an increase in road safety?

17 MR. DAN GUIMOND: No, I wouldn't agree
18 with that. I -- I think what's important to understand
19 is -- is how we got to -- to today. And -- and we had
20 a -- an order by the Regulator that says, Demonstrate
21 to me how your road safety budget is optimized.

22 And we didn't -- we didn't do that. And
23 -- and I -- I came here and I said, We didn't do it.
24 And basically, I -- I'm diplomatically and respectfully
25 saying that we cannot answer that question, because

1 there's too much about road safety that has to do with
2 intangible.

3 And I used the examples like how -- how
4 big should the advertising campaign be on Don't Text
5 and Drive? How Buckle Up, all these 60-Second
6 commercials, I -- I can't demonstrate a linkage to
7 frequency and severity.

8 I -- I can't say that this is, you know
9 -- if I said to you, I'll spend a half a million
10 dollars on texting and driving, how -- how can I see it
11 -- it should be a million, or three hundred thousand
12 (300,000)? You'll -- you'll never get a direct
13 correlation to frequency and severity.

14 So that's why we propose to deal with
15 that order a -- a more of an umbrella of a funding
16 envelope. Then, when you look at it all together, that
17 you know you get an acceptable ROI. And based on that,
18 that -- that the Regulator is some -- is satisfied that
19 at least you're getting your money's worth.

20 MR. CHRISTIAN MONNIN: And -- and the
21 examples that were provided there, advertising,
22 commercials, that is one (1) particular vein of -- of
23 potential road safety initiatives. But going back to
24 proven initiatives, I think I understood the answer was
25 that there are some proven initiatives.

1 And would you agree that, for example, a
2 Checkstop Program is a proven initiative which takes
3 drunk drivers off the road?

4 MR. DAN GUIMOND: I'm -- I'm sorry.
5 Can you repeat the question just to make sure I got it
6 right?

7 MR. CHRISTIAN MONNIN: Certainly. I
8 believe I understood that there was an acknowledgement
9 from your corner that there are proven road safety
10 initiatives.

11 Is that correct?

12 MR. DAN GUIMOND: It depends what you
13 mean by 'road safety'. I think, at -- at the end of
14 the day, what I see is the legislation when it comes to
15 MPI's role in road safety, that it's more about
16 education and -- and awareness, enforcement, and so on,
17 but it -- it doesn't have anything to do with
18 engineering.

19 So I think what's been happening here is
20 that the Regulator is trying to find a way to ensure
21 that the ratepayer is getting their money's worth. And
22 so I'm trying to find a way -- or MPI, I should say, is
23 trying to find a way to satisfy the Regulator's need
24 with the legislation in place, and what's possible when
25 you look at the -- all of the legislative that's in

1 place for MPI.

2 And if we look at it from a -- a loss
3 prevention perspective, that it will achieve the goal.
4 That's what this is about.

5 MR. CHRISTIAN MONNIN: Well, thank you.
6 And -- and so if -- if I can just try to identify and
7 isolate proven road initiatives, road safety
8 initiatives, would you agree with me, Mr. Guimond,
9 that, for example, a proven road safety initiative is
10 the Checkstop Program which, in a concrete manner,
11 takes drunk drivers off the road?

12 MR. DAN GUIMOND: I know that what --
13 what's happening there is a good thing. The thing is,
14 go back to optimizing the budget. I mean, how many
15 Checkstops do we fund? How -- how do -- how -- how do
16 we prove that all these -- these drunks have been put
17 off the road? Like -- like how many, you know,
18 paraplegic or quadriplegic, or death, or -- or loss of
19 -- of, you know, the physical damage and so on, how --
20 how much we prevented? We -- we can't -- I can't come
21 back here and say, This is how much we've saved.

22 And -- and should we double the budget?
23 Should we cut it in half? It's intangibles, and it's
24 the intangibles that I think is causing our inability
25 to -- to answer the question that the Regulator asked

1 us. And -- and so I believe that -- that MPI's
2 proposal, or -- or suggestion is a way to get -- a -- a
3 way for the Regulator to -- to be satisfied that --
4 that ratepayers are -- are getting their money's worth.

5 MR. CHRISTIAN MONNIN: And I don't want
6 to belabour that particular point, Mr. Guimond, but do
7 I understand the answer to be that the Corporation is
8 not able to agree with my suggestion that lex -- less
9 drunks behind the wheel make -- makes the road safer?

10 MR. DAN GUIMOND: I -- I don't disagree
11 with your statement. I -- I'm just trying to bring
12 back the discussion to what the Regulator is trying to
13 do.

14 MR. CHRISTIAN MONNIN: In -- in --
15 still in -- in this attempt to identify proven road
16 safety initiatives, what about speed reader boards?
17 Would you agree with -- with me, Mr. Guimond, that
18 speed reader boards are proven to reduce speed and
19 aggressive driving?

20

21 (BRIEF PAUSE)

22

23 MR. DAN GUIMOND: I'm just trying to
24 provide answers to you linked back to what MPI is
25 trying to do in regards to what the -- the Regulator

1 has ordered. And so when it comes to optimizing the
2 budget, you know, like I -- I know through like -- like
3 our Road Safety Program, that we do have some of these
4 displays that we can have.

5 We -- we can have them at schools. We
6 can have them everywhere but, you know, should I have
7 ten (10) or a hundred of them? Should I have two
8 hundred (200) of them? How much money do we spend on -
9 - on these things? That -- that's what we're trying to
10 -- to find a way here to -- to demonstrate to the
11 Regulator that we have a funding outlook that, at the
12 end of the day, ratepayers are getting their money's
13 worth.

14

15 (BRIEF PAUSE)

16

17 MR. CHRISTIAN MONNIN: And I understand
18 that it's the Corporation's position that they're here
19 today with -- particularly with regards to this -- this
20 exhibit, to try to satisfy what it perceives the
21 Regulator request with regards to optimizing the road
22 safety budget.

23 But for the sake of argument, Mr.
24 Guimond, let's assume that I agree with you -- or that
25 rather my client agrees that although road safety

1 initiatives may be more difficult to attribute, there
2 are proven initiatives that exist -- or road safety
3 initiatives which can be used as metrics for
4 efficiency?

5

6 (BRIEF PAUSE)

7

8 MR. DAN GUIMOND: That may very well be
9 the case. And I think to Mr. Gosselin's suggestion
10 that -- that, you know, assuming that the order comes
11 out that -- that this is a way to -- to be able to --
12 to deal with that order that we received it, that
13 you'll be at the table when we finalize this and -- and
14 be able to maybe share some of that information and
15 work on it together and decide, well, you know, like,
16 we should buy fifteen (15) of these speed displays, and
17 not a hundred.

18 I mean, that's what we need to -- we
19 need to talk about it. So I think that -- I think this
20 is -- this is as much as I can say about it.

21 MR. CHRISTIAN MONNIN: And a little bit
22 of a non sequitur, you -- you indicated that, if this
23 proceeds, you would hope that I'm at the table. And by
24 that, I mean, I hope you mean my client, which is Bike
25 Winnipeg. I note on the -- the list, the laundry list

1 of prevention stakeholder groups, Bike Winnipeg is not
2 there. There is a subheading called, "Active
3 Transportation Groups."

4 Would you confirm that Bike Winnipeg
5 would fall under that heading?

6 MR. DAN GUIMOND: Correct.

7 MR. CHRISTIAN MONNIN: Thank you.

8 Madam Chair, this may be an appropriate time to take
9 the morning break, or I'm in your hands.

10 THE CHAIRPERSON: I think that would be
11 a good thing. We'll take for fifteen (15) minutes.
12 Thank you.

13

14 --- Upon recessing at 10:37 a.m.

15 --- Upon resuming at 10:55 a.m.

16

17 THE CHAIRPERSON: Welcome back. We're
18 ready to begin again with Mr. Monnin's cross-exam.

19

20 CONTINUED BY MR. CHRISTIAN MONNIN:

21 MR. CHRISTIAN MONNIN: Thank you, Madam
22 Chair. Diana, if you could please put up on the screen
23 page 6 of Exhibit 48. If you'd scroll down a little
24 bit more, please. That's good. Thank you.

25 I'd like to focus on -- on the first

1 paragraph after the quotation or the citation of the
2 legislation which reads as follows.

3 "This legislation enables the
4 Corporation to explore new loss
5 prevention concepts through research,
6 then develop and finance them into
7 programs and activities that are
8 likely to reduce claims costs if
9 analysis and business cases can
10 demonstrate a likely return on the
11 investment."

12 My read of this paragraph seems to
13 stress that all the programs and activities, in
14 particular regard to me -- or to my client rather, road
15 safety activities, are viewed by the Corporation
16 through the business case -- or the prism of the
17 business case and return on investment.

18 Is that an accurate read of that
19 language?

20

21 (BRIEF PAUSE)

22

23 MR. DAN GUIMOND: Well, yes and no, in
24 the sense that this -- this suggestion that we have is
25 all about trying to find a way to optimize the funding

1 envelope to meet the -- the Regulator's needs.

2 And so, as I've stated, we do things
3 that are not linked to -- to necessarily a specific
4 ROI, like -- like, when we buy flashing lights for --
5 for kids at Halloween, for example. So in this case,
6 you know, it's not linked to a business case, although
7 we know it's a good thing to do. But -- but I think
8 going back to what the Regulator is trying to do, it's
9 -- it's within that context. MR. CHRISTIAN MONNIN:

10 So this -- this notion of if activities are likely to
11 reduce claims costs, if analysis in business cases can
12 demonstrate a likely return on the investment, my
13 understanding is that you're -- you're saying that's
14 not a -- that's not a restrictive view of what the
15 legislation enables or MPI's restrictive view. That
16 language is being put there because this is what the --
17 the PUB is asking MPI to do.

18 Is that correct?

19 MR. DAN GUIMOND: No, it's -- it's not
20 what the Regulator has asked us to do. What the
21 Regulator has asked us to do is to demonstrate that
22 we've optimized the Road Safety Program. And, in fact,
23 it was an order last year asking us to -- to do that.
24 And we're not able to do that because there's too many
25 things that are intangible.

1 So what we're suggesting as a way to
2 satisfy the need of the Regulator, is under the -- a --
3 the Basic Loss Prevention Program, if we were to roll
4 road safety under it and report on the entire funding
5 envelope, some of which will be based on business cases
6 and some may not, like the flashing lights for the kids
7 at Halloween. But at least the Regulator could monitor
8 a funding envelope that they know ratepayers are
9 getting their money's worth when they look at the sum
10 of it.

11 MR. CHRISTIAN MONNIN: Diana, could you
12 please go to the transcript of October 24th, page 629,
13 line 5, please? And M. Guimond, this is an exchange
14 that you and I had on that date. And again, for the
15 benefit of the record, my question to you when I start
16 on line 5 is:

17 "And what about identifying strategic
18 initiatives to offset bodily injury
19 costs? Would it include that -- the
20 new Loss Prevention Plan?"

21 Answer:

22 "MR. GUIMOND: The Loss Prevention
23 Plan is regarding frequency,
24 severity, and the human aspect of
25 it."

1 And I go on and I thank you for that
2 answer. Where in this Loss Prevention Plan, M.
3 Guimond, do we find this human aspect?

4 MR. DAN GUIMOND: Well, I -- I think
5 each time you -- you are able to demonstrate a
6 reduction in frequency and severity, that there are
7 more people alive, there are less broken limbs, there
8 are less paraplegics, there are -- so from a -- from a
9 human aspect of it, not only are -- are people not
10 getting injured, but also how -- how family members are
11 affected when somebody's hurt. That -- that aspect of
12 it, too, is -- is very -- very beneficial in the sense
13 that it -- when somebody gets injured, it's not that --
14 just that person, but the whole -- the whole family and
15 -- and the loved ones get affected as well.

16 MR. CHRISTIAN MONNIN: But my
17 understanding of this Loss Prevention Plan, as being
18 put forward, ultimately it's to be mea -- it's to be
19 measured by whether there's less frequency and severity
20 in collisions, therefore driving down premium prices.
21 Is that correct?

22 MR. DAN GUIMOND: The objective is to
23 satisfy the Board order.

24 MR. CHRISTIAN MONNIN: And the Board
25 order of optimizing the road safety budget to MPI, is

1 that strictly just a financial exercise?

2 MR. DAN GUIMOND: I'm not sure I can
3 answer that because I think I'd be putting words into
4 the Regulator's mouth in terms optimizing the budget.

5 MR. CHRISTIAN MONNIN: And I'm asking -
6 - certainly not asking questions of the Board.

7 What is the Corporation's understanding
8 of what that optimization is? Is it just a financial
9 exercise?

10 MR. DAN GUIMOND: My understanding, in
11 terms of satisfying the Board order, is to demonstrate
12 that ratepayers are getting value for their money.

13 MR. CHRISTIAN MONNIN: And therefore
14 that would be independent of Goal number 7 of the
15 Corporation, which I'm paraphrasing, which would be to
16 ensure safer streets for Manitobans and safer
17 communities.

18 MR. DAN GUIMOND: No, I don't agree
19 with that. I -- I think you're -- you need to
20 distinguish the order and -- and trying to satisfy MPI
21 as a corporation, trying to satisfy that order. And --
22 and I -- I think you're trying to mix up things too
23 much here.

24 MR. CHRISTIAN MONNIN: Wouldn't be the
25 first time I'm accused of that. You can turn to -- to

1 page number 7, please?

2

3

(BRIEF PAUSE)

4

5 MR. CHRISTIAN MONNIN: And -- and right
6 now I'd like to turn your attention to the first
7 paragraph of that page, the second line:

8 "Considered independently, it is
9 possible to determine corporate
10 expenditures related to these
11 elements of loss prevention."

12 And I would read into that road safety
13 measures.

14 "But in some cases, much more
15 difficult to attribute to interven --
16 individual interventions to a
17 specific correlating reduction in
18 collisions claims and claims' cost."

19 And I just want to make sure I
20 understand what the Corporation means by that. Do I
21 understand correctly what's being said is that it's
22 harder to assess an individual initiative than a group
23 of initiatives?

24 MR. DAN GUIMOND: What I said is that
25 we were unable to satisfy what the Regulator asked us

1 in terms of optimizing the road safety, because there
2 are things that are intangible.

3 When you look at the umbrella of loss
4 prevention, which -- which we -- we've done for year
5 and years, but if -- if we were to look at it as an
6 umbrella, a funding umbrella under which road safety
7 fits in, that you could -- you could demonstrate to the
8 Regulator that -- that ratepayers are getting value for
9 their money.

10 And I -- I think that's -- that's the
11 objective of what the Regulator's trying to do is -- is
12 just to say, Show me at least that -- that the money
13 you're spending is -- is -- that -- that ratepayers are
14 -- are getting something out of it and it's worth it.

15 So it's possible to do that at the -- at
16 the funding umbrella of road -- of loss prevention.
17 It's not possible to do it just -- when you just talk
18 about road safety.

19 MR. CHRISTIAN MONNIN: I just want to
20 make sure I understand what was said there. Is it
21 MPI's position that the optimization of this budget, of
22 the road safety budget, is purely to benefit
23 ratepayers?

24 MR. DAN GUIMOND: I -- I don't know the
25 answer to that. I -- I mean, you'd have to ask the --

1 the Regulator. The only thing I know is the Regulator
2 asked us to demonstrate a way that ratepayers are --
3 are getting value for the money and -- and that the
4 funding envelope is -- is justified.

5 MR. CHRISTIAN MONNIN: So my takeaway
6 from that answer is that the Corporation is really in
7 the hands of the -- of the Regulator, here. If they
8 were come back to the Corporation and say, In addition
9 to optimizing the road safety budget to the benefit of
10 ratepayers, that optimization also includes measurable
11 steps to be taken to Manitobans -- not ratepayers -- as
12 a whole, would you agree with that?

13 MR. DAN GUIMOND: No. The Corporation
14 is in the hands of the Government of Manitoba. And we
15 have to stay within the legislative framework, and we
16 simply administer the plan on behalf of -- of the
17 Government of Manitoba.

18 When it comes to the specific order from
19 the Board, we were unable to -- to provide an answer to
20 that. And I -- I don't -- I -- I think it's important
21 as a Corporation that, if you can't provide an answer,
22 you say why. And -- and basically it's because -- we
23 can't because of the intangibility.

24 So within the confines of -- of how we
25 administer the plan on behalf of -- of the Government

1 of Manitoba, we'd propose a solution to the Regulator
2 that would be able to satisfy them that the funding
3 envelope in its entirety -- that we could demonstrate
4 value for -- for Manitobans, and it could be justified.

5 MR. CHRISTIAN MONNIN: And -- and maybe
6 -- I appreciate this is a draft, and -- and it might be
7 a faute de plume but what I -- what I'm trying to grasp
8 here then, Mr. Guimond, is the following. The second
9 paragraph in the page in front of you it reads:

10 "Both the public..."

11 What I read from that is it's not
12 ratepayers.

13 "...and the Corporation require a
14 measure of evidence to prove that
15 investment and loss prevention works.
16 Intuitively, an ounce of preven --
17 prevention is known to produce a
18 pound of cure, but how can ratepayers
19 assure that the dollars invested by
20 Manitoba Public Insurance will
21 positively impact their insurance
22 premium claim -- insurance premiums?"

23 And so which is it? Is the investment
24 and loss prevention is -- is that the required measure
25 of evidence to prove, is that to the benefit of the

1 public or to the benefit of insurance premiums -- to the
2 ratepayers, rather?

3 MR. DAN GUIMOND: It -- it's a draft,
4 sir. I mean, that's all I can say. But I -- I do
5 believe that any time there's a reduction in frequency
6 and severity, that it's the public that benefits. And
7 for us, all Manitobans are our insureds. I mean,
8 through PIPP.

9 So -- so sometimes we might use the word
10 'public'. We might use the word 'an insured'. We
11 might use the word 'ratepayer'. We might use 'policy
12 holder'. We might use all kinds of names, but at the
13 end of the day every Manitoban is a -- is a customer of
14 ours just by the way the Personal Insured Protection
15 Plan works.

16 So maybe when we finalize the document
17 that we might use a different word, but at the end of
18 the day I do believe that when frequency and -- and
19 severity are reduced it's -- it's the public -- it's
20 Manitobans that -- that benefit.

21

22 (BRIEF PAUSE)

23

24 MR. CHRISTIAN MONNIN: If you could
25 turn to page 8, please, Diana?

1 (BRIEF PAUSE)

2

3 MR. CHRISTIAN MONNIN: And -- and I'm
4 looking at the third paragraph of that page which
5 begins:

6 "As a basic loss prevention strategy
7 and framework brings all elements of
8 loss prevention and scope. Enables
9 collecting, tracking, and recognizes
10 that these elements all work
11 together, contributing in different
12 but complementary ways towards the
13 overall goal of loss prevention to
14 reduce claims and lower claims costs
15 that ultimately benefit ratepayers in
16 the form of lower insurance
17 premiums."

18 Would you agree with me that that --
19 that's the end goal of -- of what is being proposed in
20 this loss prevention framework, is ultimately benefit
21 ratepayers in the form of lower insurance premiums?

22 MR. DAN GUIMOND: The end goal for me
23 is to ensure that the Corporation is able to satisfy
24 what the Regulator is trying to do. MPI does a lot of
25 things right now, so it -- it does have loss

1 prevention. It does -- it does a lot of things.

2 But at the end of the day, this -- this
3 is a very draft document to demonstrate to the
4 Regulator an approach of how we could meet the -- the
5 objective of the order. So we can meet the objective
6 of the order. We can make sure that ratepayers
7 benefit. We can make sure that, you know, there's less
8 people injured.

9 So there -- there's a whole pile of
10 thing (sic) that this -- this does. It's not just one
11 thing, but the ultimate goal of what we've put on the
12 table as a Corporation is to satisfy that Board order.

13 MR. CHRISTIAN MONNIN: And you're
14 referring to last year's Board order, correct?

15 MR. DAN GUIMOND: Yes.

16 MR. CHRISTIAN MONNIN: And here we are
17 a year later in front of the Regulator with the new
18 deal being proposed by MPI. Now, if the Board comes
19 out with a new order based on what is being proposed,
20 and it says to the Corporation that the ultimate goal
21 is not solely to the benefit of ratepayers in the form
22 of lower insurance premiums, but it's also to promote
23 research or educational programs relating to health,
24 rehabilitation, safety and the reduction of risk in
25 respect of any branch or class of insurance, would the

1 Corporation abide by that order?

2 MR. DAN GUIMOND: It's a hypothetical
3 question. And we'll -- we'll deal with that if -- if
4 the Board even goes there. We'll -- we'll see what
5 happens. Right now, my understanding is that the
6 objective of the Regulator is just trying to optimize a
7 funding envelope and demonstrate to themselves that
8 ratepayers are -- are getting value for their money.

9 MR. CHRISTIAN MONNIN: And with that
10 understanding and with this new proposal, and at a very
11 high level is -- is it the -- the Corporation's
12 position that if -- if there are lower premiums and the
13 cost of premiums go down, then this loss prevention
14 strategy is successful?

15 MR. DAN GUIMOND: No, I -- I think
16 there's -- when you have a loss prevention strategy,
17 there are -- there are many goals. That's -- that
18 would be too narrow, in my view.

19 MR. CHRISTIAN MONNIN: So in addition
20 to -- reading from page 8, and reduced claims, lower
21 claims' cost that ultimately benefit ratepayers in the
22 form of lower insurance premiums. My read from that is
23 that's -- that's the ultimate goal of this framework.
24 Are there others?

25 MR. DAN GUIMOND: All right. I'm --

1 I'm trying to be -- I'm going to answer this and -- and
2 try to be respectful and maybe explain my -- my thought
3 process here. The first objective is to try to deal
4 with the Regulator's need in terms of what they
5 ordered. That's number 1.

6 If this approach proves to be
7 satisfactory, then we're going to start working on it.
8 This is just a draft. That's all I'm going to say.
9 It's -- it's a draft. It's an approach. It's a way to
10 demonstrate how one could satisfy the -- the need of
11 the Regulator.

12 But I think it's way too premature to
13 start looking at all the words and trying to understand
14 every meaning of the words and so on until there's due
15 process, which is assu -- if -- if the Regulator says,
16 Yes, we accept this to be a -- a viable approach to
17 satisfying the -- our order that we had last year, then
18 we're going to work with -- with the stakeholders, and
19 we'll do what we do all the time. It's just like --
20 have you seen in those -- in -- in these hearings, how
21 we work with the -- the collision trade industry? And
22 -- and we work with brokers. We work with all kinds of
23 people.

24 And -- and so we're going to start the
25 process and finalize the document.

1 MR. CHRISTIAN MONNIN: For -- for what
2 it's worth, Mr. Guimond, I appreciate the patience that
3 you are demonstrating with the questions I'm asking
4 you, and I thank you for your time this morning. That
5 being said, I'm going to continue on with my questions,
6 and we'll be done this morning.

7 Under what is being proposed, I would
8 suggest to the Corporation, Mr. Guimond, that you may
9 have a poor performing component of this loss
10 prevention plan, for example -- framework rather, for
11 example, road safety initiatives. But if the ultimate
12 benefit is lower insurance premiums are occurring on
13 account of the other components of this loss prevention
14 framework, well, then the human aspect gets lost in the
15 fray.

16 Would you agree with me?

17 MR. DAN GUIMOND: Not at all. And I
18 don't view our Road Safety Program as a poor performer.
19 It -- it's just that the specific order we got, we
20 weren't able to answer that -- that question on -- on
21 optimization because there's too many intangibles. But
22 I would -- I would never agree that -- that it's a poor
23 performer.

24 MR. CHRISTIAN MONNIN: Never agree that
25 it's a poor performer, but because of the intan --

1 intangibles you're not able to -- you have difficulty
2 in answering directly the reductions in collisions and
3 claims because of the complexity of the road safety
4 issues.

5 MR. DAN GUIMOND: I -- I think I'm
6 going to go back maybe to the examples of what I was
7 saying earlier in terms of optimizing the funding
8 envelope for road safety. How much advertising do you
9 buy? How -- how many -- those speed boards that you
10 were talking about, like if we have twenty (20) of
11 them, should we have a hundred and fifty (150) of them?

12 It's -- it's very difficult to answer
13 the -- or to -- to comply to the order. That's --
14 that's as simple as it gets. So when you look at it as
15 a -- from a -- a loss prevention standpoint instead of
16 just narrowly talking about road safety, and if my
17 understanding -- if I got it right, because that's what
18 I said in my testimony, I need to know if I -- if I got
19 it right. We'll know it through the order. But if the
20 Regulator's intent is to say, Well, how -- how do I
21 know ratepayers are getting value for their money?
22 They -- they need some kind of -- of return on
23 investment. And -- and so that's what we're trying to
24 do here. It's as simple as that.

25 MR. CHRISTIAN MONNIN: Diana, if you

1 could go to page 12, please. And the questions I have
2 pertain to the second -- the language found in the
3 second paragraph:

4 "All elements under the Framework
5 will be considered within one (1)
6 funding envelope for purposes of
7 measuring overall return on
8 investment and loss prevention. Some
9 elements have specific indicators
10 that have been utilized in the past
11 to determine a measure of progress
12 and/or return on investment specific
13 to that initiative. Where available,
14 these will be preserved under the
15 Framework."

16 That, I suggest to you, M. Guimond,
17 highlights the concern of my client that the human
18 aspect will get buried in the one (1) funding envelope
19 and it won't be measurable.

20 MR. DAN GUIMOND: I -- I can say that -
21 - that the human aspect will never get buried, because
22 at the end of the day the human aspect is the
23 underlying principle as to why insurers have a Loss
24 Prevention Program in the first space -- in -- in the
25 first place. And that's to reduce frequency and

1 severity because it's all about people.

2 MR. CHRISTIAN MONNIN: And property.

3 There's -- there's tin and there's skin, Mr. Guimond.

4 MR. DAN GUIMOND: Yeah, property can --

5 MR. CHRISTIAN MONNIN: And there seems
6 to be emphasis on tin more, so.

7 MR. DAN GUIMOND: -- yeah, but it --
8 for sure, property is -- is important. But if -- if
9 you're talking about the human -- I -- I thought your
10 answer was limited to the human side of it. I mean, a
11 car can be replaced. It can be fixed. I've been
12 reading serious loss report for over twenty (20) years,
13 and if you want to talk about the human side of it, my
14 mistake if -- if you meant also property.

15

16 (BRIEF PAUSE)

17

18 MR. CHRISTIAN MONNIN: If you could
19 turn to page 17, please, Diana. Scroll down a little
20 bit more, please. That's good. Thank you. The last
21 paragraph above "Partnerships with Law Enforcement"
22 reads:

23 "Under a new Operational Plan being
24 developed by the Corporation,
25 complete Frameworks will be used for

1 road safety priority setting, program
2 development, and program evaluation
3 to guide programming activities in
4 the future."

5 These are just high level questions, but
6 'Operational Plan' is an upper case 'O' and upper case
7 'P'. It's a defined term. I haven't found it anywhere
8 else in this document.

9 Would that be the Operational Plan
10 that's found in Attachment C of Road Safety SM.3? I
11 don't need to drive you there right now. I just want
12 to make sure that we're all singing from the same
13 proverbial songbook.

14

15 (BRIEF PAUSE)

16

17 MR. DAN GUIMOND: Sorry, can you
18 restate the reference, please?

19 MR. CHRISTIAN MONNIN: Hopefully I'm --
20 I'm not driving you to error. It's Attachment C, Road
21 Safety SM.3. It should be page 15 of SM.3.

22 MR. DAN GUIMOND: Yes, that's the one.

23 MR. CHRISTIAN MONNIN: Before I go any
24 further on that, still on page 17, there's another
25 defined term, 'Frameworks', plural. Again,

1 appreciating this is a draft, there is no -- this is a
2 loss-prevention framework, or strategy and framework,
3 and here's a plural. I -- I didn't find that anywhere.

4 Is that just a -- a hangover from the
5 draft?

6 MR. DAN GUIMOND: Sorry, I -- I won't
7 be able to answer that question. I -- it's getting
8 into the -- more detail than I know. Sorry.

9 MR. CHRISTIAN MONNIN: That's entirely
10 fair. I appreciate the answer.

11 Now, Diana, if you can now go to
12 Attachment C, I just have a couple of questions.

13

14 (BRIEF PAUSE)

15

16 MR. CHRISTIAN MONNIN: If you can
17 scroll down just a little bit further, please. And so
18 do I understand, therefore, that it's MP -- thank you -
19 - that it's MPI's position that this new Operational
20 Plan, this is the template, the cornerstone of -- of
21 this new loss prevention strategy and framework that's
22 being proposed?

23 Is that correct?

24 MR. DAN GUIMOND: No. This is the road
25 safety aspect of it.

1 MR. CHRISTIAN MONNIN: Okay. Very
2 well. With this Operational Plan, annual milestones,
3 the new one, the first -- or the second tile being:

4 "Implement new road safety
5 initiatives for current year."

6 Is it MPI's position that these new road
7 safety initiatives will be implemented in this current
8 year?

9 MR. DAN GUIMOND: No. I'd say you'd
10 have to follow the map underneath there in terms of how
11 it gets rolled out.

12 MR. CHRISTIAN MONNIN: Okay. And so --

13 MR. DAN GUIMOND: And so --

14 MR. CHRISTIAN MONNIN: -- where there's
15 blue, there's a blue shade, to the right of that is
16 April. And what does that represent?

17 MR. DAN GUIMOND: Well, some -- some of
18 these things may be initiated this year. But again,
19 this plan may very well be modified a little bit if --
20 if we go ahead with this proposed solution, so --
21 because you -- you'd have to interlink maybe different
22 things, depending on the feedback we're going to get
23 from the various stakeholders.

24 So I wouldn't look at this right now. I
25 -- I wouldn't want to commit to specific deadlines at

1 this point in time, depending on what we see in the
2 order.

3 MR. CHRISTIAN MONNIN: Has the
4 Corporation -- I may have missed it, but has the
5 Corporation identified any new road safety initiatives
6 for the current year?

7

8 (BRIEF PAUSE)

9

10 MR. DAN GUIMOND: The biggest
11 initiative that we have approved by our board of
12 directors, a high school driver education -- ed
13 program, revamping that program.

14 MR. CHRISTIAN MONNIN: I'm glad you
15 said, "revamped," because if you said new, I thought,
16 Geez, I took that in high school. It can't be that
17 new. So it's revamped.

18 And any other -- any other initiatives?

19 MR. DAN GUIMOND: That -- that's the
20 one we're working on right now in terms of large
21 corporate initiatives.

22 MR. CHRISTIAN MONNIN: Therefore, there
23 are no other new initiatives.

24 Is that the answer?

25 MR. DAN GUIMOND: The -- there might be

1 some other ones. Like we just launched, for example,
2 the -- the simulator for Don't Text and Drive. So
3 there -- there's a lot of maybe smaller things, but if
4 -- if you're talking about initiatives, like initiative
5 in terms of board approved, board tracked, that's the
6 high school driver education one that we have on the go
7 right now.

8

9

(BRIEF PAUSE)

10

11

MR. CHRISTIAN MONNIN: I'm sorry for
12 making everyone jump around back and forth but, Diana,
13 if you can please go back to Exhibit 48, Attachment A,
14 page 19, please? If you can scroll down to the bottom
15 of that page?

16

And again, Mr. Guimond, I -- I do
17 sincerely appreciate that this is a draft, and some of
18 my questions might be answered just with that fact, but
19 I just want to clarify certain things that are in this
20 document. The last paragraph:

21

22

23

24

25

"Equally important, the Corporation
does not use the Framework to support
assumptions about programming effects
without proving them through prudent
best practices and program

1 evaluation. This is of particular
2 significance when attempting to link
3 road safety initiatives with claims
4 costs and Basic Autopac rates, and is
5 further addressed in the section --
6 in the sections that follow."

7 And -- and I'm just trying to -- to
8 reconcile that with the language that is found at the
9 top of page 6, and I -- you don't need to go there,
10 Diana, I -- I -- it's one -- it's a short sentence and
11 I could read it in.

12 "Assumptions are therefore..."

13 And -- and this is referring to the fact
14 that road safety initiatives are less clear. That
15 section finishes off with:

16 "Assumptions are therefore required
17 and unavoidable when drawing linkwa -
18 - linkages in these cases."

19 And so on the one (1) hand I -- I'm
20 reading this document and the Corporation, with respect
21 to road safety initiatives, is saying that assumptions
22 are required and unavoidable, and then they're saying
23 they're using assumptions but these assumptions -- and
24 they're -- this is a very confusion (sic) question, I
25 appreciate that.

1 These assumptions will be proven through
2 best practices in the program evaluation? Is that what
3 the Corporation is saying?

4 MR. DAN GUIMOND: Yes.

5 MR. CHRISTIAN MONNIN: And -- and what
6 are those assumptions?

7 MR. DAN GUIMOND: Well, I -- I think
8 what we're -- I think what's important to understand is
9 -- is to go back to the what the Regulator is trying to
10 do. So for example if you want to change behaviour,
11 take Buckle Up for example, wear your seat belt. It
12 takes maybe ten (10) years. I don't know how long it's
13 going to take. Nobody really knows. It -- we just
14 know it's going to take a long time to -- to modify
15 behaviour.

16 I think this text and driving, for
17 example, is not going to get done overnight. So we
18 know that we've got to do something about it, and --
19 and we have been doing something about it. And the
20 Government of Manitoba has been very supportive with,
21 you know, fines and so on. But to modify behaviour
22 takes a long time.

23 So if I come to the Regulator and say,
24 Well, I don't know how much time it's going to take but
25 I'd like to spend a million dollars on advertising and

1 doing simulators on don't -- Don't Text and Drive, and
2 so on, and then if -- if they ask me, Well, then how do
3 you know it's optimized? Why shouldn't it be five
4 hundred thousand (500,000)? Why shouldn't it be a
5 million and a half, or eight hundred thousand
6 (800,000), or 1.2 million?

7 That -- that's what we're trying to do
8 here. So I think from an abstract perspective,
9 everybody gets it that spending money on Don't Text and
10 Drive, and change behaviour, makes -- makes good sense.
11 I don't think anybody was going to object to the fact
12 that we have the -- the simulator going around schools,
13 that we're advertising, and so on.

14 But if I'm asked a question, Well, you
15 spend so much money on it why not 30 percent more, or
16 20 percent less, I can't answer the question. I --
17 that -- that's why we weren't able to deal with the
18 order.

19 So I'm going to go back to -- to what
20 the objective is, and if -- if you can on -- on a --
21 look at it from a funding envelope perspective that at
22 least you can demonstrate to the Regulator in its
23 entirety you're -- you're getting value for Manitobans.

24

25 And so -- so, yeah, you -- it's like --

1 a little bit like you said, maybe you can use a bit of
2 -- of metrics or -- or past history and so on, but at
3 the end of the day it's all about trying to satisfy
4 that order. And I think we can't lose sight of that
5 because if you go into the minutia of stuff like that,
6 I mean, that -- that's -- at the end of the day, you
7 got to understand that this is a draft. It -- it's
8 something to -- to develop with our stakeholders and to
9 satisfy that Board order. So I'll leave it at that.

10 MR. CHRISTIAN MONNIN: Diana, if you
11 can go to page 21, please?

12

13 (BRIEF PAUSE)

14

15 MR. CHRISTIAN MONNIN: With regards to
16 Challenge number 1, weakness in the data that inform
17 programming decision making -- you can scroll down a
18 little more to give the whole -- thank you, Diana. I'm
19 assuming you -- you can read that. What I'm going to
20 suggest, and I'm paraphrasing it, and it, you know, my
21 paraphrase is that the data is incomplete and therefore
22 not reliable for the purpose of program evaluation.

23 Is that essentially what's being said
24 there?

25 MR. DAN GUIMOND: Yes. For example,

1 text and driving, we know that in terms of -- of
2 losses, that it's more than what we know, but that
3 people won't self-report. You know, they won't put in
4 a claim and say, Oh, by the way, I was on my phone.
5 So, yeah, our data is not 100 percent.

6 MR. CHRISTIAN MONNIN: Now if -- if you
7 can go to the Application, Road Safety SM.3, page 14?

8

9 (BRIEF PAUSE)

10

11 MR. CHRISTIAN MONNIN: If you scroll
12 down a little bit, please, Diana? And it's under,
13 "Program planning and evaluation." There's two (2)
14 paragraphs there. Again, I'll give you the opportunity
15 to read that, Ms. Guimond.

16 MR. DAN GUIMOND: Sorry, which
17 paragraph do you want me to read? The two (2) of them?

18 MR. CHRISTIAN MONNIN: Yes, please.

19

20 (BRIEF PAUSE)

21

22 MR. DAN GUIMOND: Okay.

23 MR. CHRISTIAN MONNIN: And -- and the
24 question I have is as follows, is there's much more
25 certainty in the language there that's being provided

1 by MPI. There's no qualification. There's no
2 questioning of the -- the integrity of the data. Yet
3 in the loss prevention strategy and framework, it's
4 high of mind.

5 And you're saying -- not you, the -- the
6 Corporation is saying the data is available, but it has
7 limited value. And I'm questioning why MPI is, at the
8 outset, undermining, frankly, what it's proposing in
9 loss prevention strategy and framework.

10 They're saying, Well, this is what we
11 want to do, but before we get anywheres, you know, the
12 information we have just really isn't very strong. And
13 that's not reflected in the Application. Why is that?

14 MR. DAN GUIMOND: I think it's all
15 about context in terms of the Board order. It's --
16 it's -- like, we feel very comfortable in what we're
17 spending on Don't Text and Drive. We feel comfortable
18 that it was a good idea to do the simulator. We feel
19 it's a good idea to fund police to -- to mon -- you
20 know, do a -- a blitz on -- on people who are having --
21 using their phones while they're driving.

22 We have no problems in thinking that
23 those are good things to do. And we know that over
24 time, it will modify behaviour. But when you're
25 specifically ask him -- say, Is it optimized, I -- I

1 can't answer that. It's -- it's like if the Regulator
2 wanted to say, Well, Dan, you know, you're spending two
3 (2) point something million on road safety, for
4 example.

5 Well, how about if -- if -- do you think
6 you'd get the result with two point four (2.4)? I
7 don't know. So they -- they're approving their rates.
8 So they need to know that Manitobans are getting value
9 for the money. So I think when you look at it in -- in
10 its entirety as a loss prevention just instead of
11 talking about road safety, the Regulator is able to get
12 some reassurance that Manitobans are getting value for
13 their money. But if the Regulator has said, you know -
14 - I think, actually, the Regulator did say they wanted
15 us to spend more money on road safety. They were
16 willing to spend 'X' number of premiums, I think, in
17 the past.

18 But -- but, you know, if -- if they were
19 to say, Well, Dan, you know, we'll give you two hundred
20 thousand (200,000) less on road safety. What do you
21 think's going to happen? I'm going to say, I don't
22 know. If they say, Well, we'll give you three hundred
23 thousand (300,000) more on road safety. What's going
24 to happen? I'd say, I don't know. You know, that's --
25 that's the thing you -- this is about satisfying that

1 order. I think we need to keep that in mind.

2 MR. CHRISTIAN MONNIN: And -- and on
3 that -- on that particular note, satisfying the order
4 going back to the rate application. Page 15 is the
5 next page, Diana. And again, my suggestion is -- is
6 that this is in response to -- to that order. And --
7 and where we are now is -- is this is the -- this is
8 MPI saying in its application:

9 "The evaluation framework will
10 include specific and tangible
11 measures with which to assess the
12 effectiveness of road safety
13 activities of the program portfolio
14 and overall road safety priority
15 level."

16 And it goes on to say:

17 "Specific targets will be -- will
18 also be established relating to
19 downward trending of collision and
20 casualty rates that ultimately drive
21 claims' costs to where feasible to do
22 so."

23 And when you go back to page 21 and 22
24 of the loss prevention strategy framework, again,
25 there's not that certainty. There's no expression of

1 tangible measures and specific goals. It's
2 equivocating and saying, Well, Challenge number 2,
3 attribution of causal relationships and confounding
4 variables. And then Challenge number 3, measurement
5 issues.

6 And -- and so the concern is isn't MPI
7 essentially saying with these Challenge 1, 2, and 3,
8 regardless of how certain it was in the Application,
9 We're not going to be able to meet this?

10 MR. DAN GUIMOND: The only thing we've
11 done is to put a -- an option to the Regulator on how
12 we could satisfy that order. That's all we've done.

13 MR. CHRISTIAN MONNIN: And on that,
14 what I -- what I would suggest to you is that what MPI
15 is doing is -- is kicking the can down the field on a -
16 - a new debate that will take off the table the issue
17 of road safety for the foreseeable future in MPI -- in
18 -- in GRAs.

19 Do you agree with me?

20 MR. DAN GUIMOND: Not at all.

21 MR. CHRISTIAN MONNIN: Would you agree
22 with me if I suggested that there's no realm of reality
23 to suggesting that this loss prevention strategy and
24 framework can be put into place by this time next year?

25 MR. DAN GUIMOND: I -- I think that

1 what I'm on record on saying is that by the next GRA,
2 I'm hoping that -- that with the stakeholders, we'll be
3 able to finalize this document, that we'll be able to
4 have a -- a scorecard to be able to show that
5 Manitobans are getting value for -- for their money,
6 which includes the road safety aspect of it within the
7 funding umbrella.

8 And we have to remember that -- that we
9 do a lot of things on road safety -- I mean, on -- on
10 loss prevention right now. This is not something new
11 to the Corporation. We do a lot of stuff on -- on loss
12 prevention. We're just going to provide the whole
13 picture to the Regulator in a manner that -- that
14 satisfied them that there's value for money.

15 MR. CHRISTIAN MONNIN: I appreciate you
16 do a lot of things on loss prevention, but do I
17 understand correctly that this is the first time the
18 Corporation would be dealing with bodily injury on loss
19 prevention?

20 MR. DAN GUIMOND: No.

21 MR. CHRISTIAN MONNIN: My understanding
22 what is being proposed here, Mr. Guimond, is that this
23 is not done in any other jurisdiction in Canada.

24 Do I have that understanding correct?

25 MR. DAN GUIMOND: I'm sorry. I'm not -

1 - I'm not sure I -- I know what you mean by...

2 MR. CHRISTIAN MONNIN: This loss
3 prevention strategy and framework, which includes road
4 safety initiatives, which we've been discussing this
5 morning, there is no other jurisdiction in Canada that
6 has something of this nature.

7 Is that correct?

8 MR. DAN GUIMOND: To the best of my
9 knowledge, there's -- there's nobody that reports to
10 the Regulator in that fashion.

11 MR. CHRISTIAN MONNIN: Madam Chair, I
12 think I'm at or near the end of the questions. I just
13 want to converse with my client for a couple of
14 minutes. Thank you.

15 THE CHAIRPERSON: Go ahead. Sorry. Go
16 ahead, Mr. Monnin.

17

18 (BRIEF PAUSE)

19

20 THE CHAIRPERSON: Okay. Mr. Monnin's
21 ready to continue. Thank you.

22 MR. CHRISTIAN MONNIN: Thank you, Madam
23 Chair. I have no -- no further questions. Merci, M.
24 Guimond.

25 THE CHAIRPERSON: Okay. Thank you very

1 much. Sorry for my raw throat here.

2 And also, I have a question for you, Mr.
3 Guimond. First, thank you very much for doing the
4 undertaking on loss prevent and road safety. This
5 would have given us a good opportunity for discussion.

6 But I just -- last year in our GRA, we
7 were -- we had Mavis Johnson come in and speak to the
8 group about road safety and prevention. And I noticed
9 in your loss prevention strategy that you have listed
10 many of the stakeholders that you plan on partnering
11 with.

12 And I'm just going to read you the quote
13 from Ms. Johnson, and I'm going to ask my question
14 based on that. And I'm sorry, I don't have a reference
15 number. I just wrote it out. But she indicates:

16 "A coordinated road safety strategy
17 recognizes the inherent limitations
18 in individual engineering,
19 enforcement, and education efforts,
20 and advocates -- and advocates for an
21 integrated, multi-disciplinary
22 response."

23 I think I'll take a little sip of water.

24 "No one (1) organization has either
25 the resources or the mandate to

1 undertake all road safety projects.
2 Furthermore, because the scope of
3 potential projects is diverse, it
4 needs to be addressed by a wide range
5 of stakeholders. It is important to
6 work with and support existing
7 community initiatives, as well as
8 cooperatively develop new programs
9 and initiatives. This requires a
10 networking approach, permitting
11 cooperation and resource sharing
12 among stakeholders."

13 Now, I wasn't clear in your document
14 whether the stakeholders that you listed are going to
15 be part of a collaborative group that gets together and
16 looks at road safety issues, or whether it's just
17 partners that you're planning on individually
18 partnering with.

19

20 (BRIEF PAUSE)

21

22 MR. DAN GUIMOND: So the -- the list
23 that we have in our document, page 10, so this -- this
24 is the ones that we've identified for you, but we
25 specifically say, "Not limited to." And if we go to

1 page 4 in terms of the government's model, I suspect
2 that by the time we're done, you know, who will be
3 sitting in those chairs will -- will be quite varied
4 from different organizations and so on to -- to make
5 this -- this work.

6 So that is -- our intent is to -- to do
7 work collaboratively and involve people in different
8 areas.

9 THE CHAIRPERSON: Okay, that's
10 wonderful. That's one (1) question I had. And then I
11 guess the other quote that I had in -- in terms of --
12 and I guess the question will -- will come aft -- at
13 the end, but it does say:

14 "Without a formal comprehensive and
15 integrated strategy, the partners and
16 stakeholders are opting independently
17 in silos, and this could be a waste
18 of resources, not contributing to
19 other -- or to a reduction in the
20 frequency and severity of road
21 crashes and the subsequent claims
22 costs, which ultimately have an
23 impact on MPI's bottom line."

24 So I guess the question is that if -- do
25 you see this as a way to optimize road safety

1 expenditures by looking at these collaborative groups
2 where they may be taking on road safety initiatives,
3 but you're working together in a collaborative way?

4 MR. DAN GUIMOND: Yeah, I'm trying to,
5 in -- in a respectful way, to say that the way the
6 legislation is -- is stated for road safety that it --
7 and -- and when I look at the -- when I got the job,
8 when I looked at the feedback between the Corporation
9 and -- and the Regulator, and I thought, Well, you
10 know, if -- if we -- if we use the word 'road safety'
11 and we look at the legislation, we -- we will conform
12 to the legislation.

13 However, the -- the legislation offers
14 quite a bit of opportunities if we start to talk about
15 loss prevention and how road safety can -- fits under
16 that umbrella.

17 And so what I'm saying is -- is that the
18 Corporation, I -- I feel, is -- is able to maybe
19 overcome some of the -- the obstacles that -- that we
20 face and -- and be able to have a -- achieve maybe what
21 -- what you're trying to do within the confines of --
22 of what we're able to do.

23 And so I -- I do believe that over time
24 the -- the answer will be 'yes' to your -- to your
25 question while MPI definitely administers the plan

1 according to the -- to the legislation.

2

3

(BRIEF PAUSE)

4

5 THE CHAIRPERSON: Okay. Thank you very
6 much. I'm going to ask Ms. Grammond...?

7

8 MS. CANDACE GRAMMOND: Yeah. Thank
9 you, Madam Chair. I think, noting the time, we can
10 probably start the lunch break. I do have one (1)
11 thing -- oh, I see Ms. Kalinowsky has some exhibits,

12 There is one (1) other thing that I just
13 wanted to state on the record, which is after Mr.
14 Schioler left this morning I got an email from him
15 indicating that he may have misspoken in his evidence
16 in terms of the percentage commission that brokers get
17 for Basic transactions.

18 And it is 3 percent. Ms. Kalinowsky and
19 I had a discussion at the break, so Mr. Schioler, I
20 think, just maybe said two and a half (2 1/2), or maybe
21 2 percent, but it is 3 percent. So that's agreed
22 between Mr. Schioler and MPI.

23

24

(BRIEF PAUSE)

25

1 THE CHAIRPERSON: Okay. Ms.
2 Kalinowsky, please.

3 MS. KATHY KALINOWSKY: Yes, we have a
4 new exhibit to file. It will be marked as MPI Exhibit
5 number 69, if that's acceptable to the Board secretary.

6

7 --- EXHIBIT NO. MPI-69: Response to the Pre-Asks by
8 the Public Utilities Board
9 6(a) and 6(b)

10

11 MS. KATHY KALINOWSKY: And Ms. Reichert
12 will speak to it. But it is a response to the pre-asks
13 by the Public Utilities Board number 6, so 6(a) and
14 6(b). And, yes, I'm getting the thumbs up that it will
15 be 69. But I'd like to have that on the screen. And
16 that might just take a moment for that to be put up on
17 the screen, and then Ms. Reichert will speak to it.

18

19 (BRIEF PAUSE)

20

21 MS. HEATHER REICHERT: Actually, if we
22 can just move it a little bit so we can see the far --
23 see as well the far right? Yeah. That's great. I
24 think everybody can see all of the columns. So if I --
25 if I can, what -- what I think might be helpful is if I

1 just walk through one (1) of the -- the rows. And then
2 we can talk about the -- the summary in its entirety.

3 So the -- well, I'll talk through the
4 first -- first row. The first row is the results of
5 the model that we filed with the general rate
6 application. So that's the standard interest rate
7 forecast methodology as at March 2014. So that was
8 what the general rate application was based on.

9 The rate impact -- '15/'16 rate impact
10 of 3.4 percent, that is the 2.4 percent on the rates
11 and the 1 percent on the RSR. But for purposes of
12 this, it's assumed that it's a 3.4 percent on rate.
13 And then the next two (2) lines show what the net
14 income forecast is and what the RSR forecast is in that
15 scenario.

16 Coming to the second last column, you'll
17 see it calculates the average net income for the rating
18 years with that rate increase of 3.4. So that rating
19 year is just to remind folks it's treated on the
20 original copy, but it doesn't come through on the scan
21 very well.

22 So the rating years are 2016 and 2017,
23 being the 2015/'16 year-end and the 2016/'17 year-end.
24 So the second last column shows what the average net
25 income, the -- the six -- six million three hundred and

1 thirty-seven (6,337,000) loss in 2015/'16 averaged with
2 the 2016/'17 income of seventeen nine ninety-three
3 (17,993). And then that average is the five thousand
4 eight twenty-eight (5,828).

5 If this was -- came to -- well, and as
6 we did in our GRA, we -- we would not file for 3.4
7 percent in -- in and of itself if that was going to
8 generate an income -- an average net income of five
9 million eight hundred and twenty-eight (5,838,000) as
10 this schedule describes. That is why in the filing, it
11 says the required rate is 2.4 percent plus the -- in
12 our rate application, we ask for the 1 percent RSR.

13 But as I explained, all of these
14 scenarios were done on the basis of a 3.4 percent rate
15 increase to show what the impact of that is given
16 different interest -- interest rate forecasts.

17 So the top line is exactly as filed in
18 our GRA. The second one, you'll recall in -- in last
19 year, when we submitted the general rate application,
20 we used what we termed the low growth interest rate
21 forecast. If we had done that this year, the second
22 line -- or the second grouping of lines shows what a
23 3.4 percent rate increase would do or look like in
24 respect of a low growth interest rate.

25 So there you can see 2015/'16, 2016/'17,

1 the net losses would still exist at a 3.4 percent rate
2 increase of 17.2 million and 4.1, averaging 10.6. That
3 10.6 equates to approximately a 1.3 percent rate
4 increase. One (1) percent is -- is about \$8 million.
5 So that would -- that indicates that if interest rates
6 had been forecasted at a low-growth interest rate
7 forecast in March, instead of 3.4 percent overall rate
8 increase, we would have been applying for a 4.7 percent
9 overall rate increase -- again, not including any RSR.

10 The standard interest rate, the number
11 3, this was the subject of the pre-ask of the Public
12 Utility Board. What -- we were asked to use a standard
13 interest rate forecast at October.

14 We did that. This is from that -- that
15 pre-ask, 3.4 percent. And you'll see again, the second
16 last column shows there's a slight loss if you only
17 have a 3.4 percent rate increase if rates are
18 forecasted based on what the banks are doing in October
19 of 2014.

20 So that break-even rate requirement, the
21 last column, indicates three point six (3.6). Again,
22 we showed what it would have been if we used October
23 forecasts using that low-growth interest rate
24 methodology.

25 And again, just to remind the Board, the

1 only difference between using what the banks are
2 forecasting, which we call the standard interest rate
3 forecast, and the low-growth interest rate forecast is
4 banks forecast an increase over a five (5) year period.

5 We just extended that increase to occur
6 over ten (10) years. So we lowered the -- the slope of
7 the increase, if you will. That's the difference
8 between the standard and the low-growth interest rate
9 forecast methodology.

10 Again, based on what was being
11 forecasted in October by the banks, item number 4 shows
12 that that 3.4 percent would -- break-even requirement
13 would be 4.6 percent.

14 And then I believe there was another
15 undertaking that we were asked to indicate what a flat
16 interest rate as at October -- if that stayed flat for
17 the remaining part of the forecast, what would that
18 look like.

19 And that's line number 5, which would
20 indicate that, again, if this stayed flat the entire
21 rating period and beyond, that's what you see in -- in
22 line 5. And that would indicate an 8.6 percent break-
23 even rate for the rating years of '15/'16 and -- and
24 '16/'17.

25 MR. REGIS GOSSELIN: Sorry, the -- the

1 flat interest rate forecast, you said it's flat for
2 which period?

3 MS. HEATHER REICHERT: It's flat as of
4 October 2014, like as of now, staying flat at the 2
5 percent that was in -- in effect at the end of October.
6 So staying flat at 2 percent the entire rest of the
7 forecast, and in particular throughout the rating
8 period.

9 MR. REGIS GOSSELIN: Okay. But it
10 would -- it would include out to 2019?

11 MS. HEATHER REICHERT: Yes.

12 MR. REGIS GOSSELIN: Okay.

13 MS. HEATHER REICHERT: In -- in what
14 you're seeing. So if it were -- if -- hopefully that
15 doesn't happen. But if rates stayed flat at 2 percent
16 for the entire next four and a half (4 1/2) years, and
17 all other things coming to fruition as per our
18 forecast, then that's the -- the kind of results that
19 you would expect to see.

20 The last two (2) columns are what was
21 just asked of us from the Public Utility Board Pre-Ask
22 number 6. So the first was to run the standard
23 interest rate forecast as of October, but use a 3.6
24 percent rate increase.

25 So you can see the second last column

1 there, very much at break-even. So when you have a 3.6
2 percent rate increase at October interest rate
3 forecast, we do break even in '16 -- '15/'16 and
4 '16/'17. That's what that negative eight hundred and
5 sixty (860) indicates to me. That's a close enough to
6 a break-even position.

7 And then the last scenario we were asked
8 to run was, using that standard interest rate as at
9 October, use 3.6 percent for the rate increase, but
10 also include a 1 percent for the RSR.

11 And in that case, you again see, as we
12 did in -- in the first scenario, you see positive
13 average net income during the rating period as you
14 would expect to because that RSR has to generate some
15 income in order to replenish the Rate Stabilization
16 Reserve.

17 So this is the -- the summary attached
18 to the exhibit are all the individual interest rates
19 that are underlying each of these scenarios. And then
20 for the Pre-Ask 6A and 'B', the pro forma statements
21 that we've included before.

22 MR. REGIS GOSSELIN: I guess one (1)
23 question I have is: Why would the -- why would the
24 2016 period values for six (6) and seven (7) be
25 different? Look -- looking at the net income value for

1 3.6 percent, twenty-seven fifty-two (2752). And then
2 you go down to line 7, what effective should be about
3 the same, wouldn't it?

4 MS. HEATHER REICHERT: No. The -- the
5 number 7, it includes that additional 1 percent. So
6 because it's pro-rated, or because we have a staggered
7 renewal period, half of our customers would be paying
8 that 1 percent. So about \$4 million increase is what
9 you would expect between a flat -- like a -- a -- from
10 a 3.6 percent on rates and a 3.6 percent on rates, plus
11 an additional 1 percent with respect to the RSR.

12 So that net income -- the -- that amount
13 of money that represents that collected for the RSR, it
14 does flow through net income so that it can increase,
15 ultimately, retained earnings. So you see a 4 million
16 increase in '15/'16, and then about an 8 million when
17 it's fully implemented in '16/'17.

18

19 (BRIEF PAUSE)

20

21 THE CHAIRPERSON: Okay. Thank you very
22 much. I believe we can break for lunch now, and I
23 believe that after lunch ARM will be presenting. Thank
24 you.

25

1 --- Upon recessing at 12:04 p.m.

2 --- Upon resuming at 1:11 p.m.

3

4 THE CHAIRPERSON: Good afternoon. I'd
5 like to welcome Mr. Frost from the Automobile --
6 Automotive Recyclers of Manitoba, and some of his
7 guests, if you would like to introduce them, and then
8 we'll hear Mr. Frost's presentation. Thank you.

9

10 PRESENTATION BY ARM:

11 MR. IRVIN FROST: It's been a while.
12 Am I on here? Thank you. Thank you, Madam Chair.
13 Thank you at the outset for allowing us to make a
14 submission. I know it's somewhat unusual, seeing that
15 we're one of the Intervenors, and I -- we very much
16 appreciate the courtesy.

17 We do have the current executive of ARM,
18 as well as the managing director of ARC, which is the
19 Automotive Recyclers of Canada. The presentation will
20 be made in -- for the most part by Mr. Steven Fletcher,
21 who is sitting immediately to my right. He is, as I've
22 said, the managing director of the Automotive Recyclers
23 of Canada, and you will be hearing from him first.

24 Sitting beside him is George Shea -- oh,
25 good start. Leo Feeleus. He is the direct -- he is

1 from Direct Auto. And sitting beside him is Greg Lane.
2 He's from Progressive Auto. Sitting beside -- be -- to
3 my far right is Emile Houge from Aimes Auto. And
4 George Shea sitting to his left.

5 These are the current executives of ARM,
6 with the exception of Leo. He is the -- a past
7 executive -- the immediate past executive of ARM. So
8 the -- with the exception of Leo, the other three (3)
9 people that you have are current executives -- current
10 executive members of ARM. So with that not so good
11 introduction, I will turn the mic over to Steven, who,
12 for the most part, will be making a presentation. And
13 I understand Leo will also be speaking to -- to some
14 degree.

15 MR. LEO FEELEUS: Yes, if -- yeah, if
16 there's a question.

17 MR. IRVIN FROST: Okay. If there's any
18 technical questions or anything you need that's on the
19 ground, Leo and company will be prepared to speak to
20 it. But for the most part, Mr. Fletcher will be
21 speaking. You have to push that thing down.

22 MR. STEVEN FLETCHER: Good afternoon,
23 everyone, and thank you for this opportunity to
24 present. I've never done this type of hearing, so when
25 I get off topic or need to be hauled back in, please do

1 so.

2 I'm here to talk about the Auto
3 Recyclers of Canada, but really within the context of
4 ARM, our Manitoba member, and auto recycling in
5 general. And I'm -- I'm going to go through what is
6 our -- what are we working on? And again, I'm trying
7 to be as relevant as I can to Manitoba.

8 So I'm the managing director of the
9 Association. It's a nonprofit. It started in 1995 to
10 represent professional auto recyclers across Canada.
11 Initially, it was set up as an information exchange.
12 Most of the activities relating to the regulation, or
13 even the business and commerce of auto recycling deals
14 at the provincial level, whether it's because of the
15 logistics of moving parts or the licencing system, or
16 the environmental regulations which tends to
17 predominate in our industry.

18 But the provincial associations
19 determined that they needed to have some sort of
20 mechanism to talk amongst one another about what's
21 happening in auto recycling, both problems and
22 opportunities. And that's -- was the origins of the
23 national association.

24 It has morphed into -- those provincial
25 associations saw benefit in terms of finding out what's

1 going on in BC or Quebec that's relevant for themselves
2 back home, and vice versa, which led to some national
3 opportunities to run programs, to interact with the
4 Federal Government or manufacturers on initiatives that
5 were truly national in scope.

6 And has morphed once again into more
7 international activities, as there is a global auto
8 recycling industry out there, and we would have been
9 one of the last sectors to consolidate, or to kind of
10 talk on a global basis. The vehicles are global.
11 Insurance is more global. Repairing is becoming more
12 global. And now there are some structures for auto
13 recyclers to share best practices. And I'll -- I'll
14 get into that a tiny bit later on.

15 Structurally, we are seven (7)
16 associations. So really ARC has only got seven (7)
17 members, one (1) for each of the provincial
18 associations from -- so there's BC, Alberta,
19 Saskatchewan, Manitoba, Ontario, and Quebec. And there
20 is a regional association in the maritime -- or the
21 Atlantic provinces representing the four (4) provinces
22 there. And the Alberta association has some members up
23 in the Northwest Territories.

24 It operates via a consensus model.
25 There are fourteen (14) members on the Board of

1 Directors, two (2) from each province. And through
2 those associations there's about four hundred and
3 twenty (420) actual working auto recyclers. So you
4 don't join ARC directly; you do it via your provincial
5 association. And that's how some of our policies and -
6 - and interactions have -- have been set up, national
7 policies that are very, oftentimes, delivered on a
8 provincial or a regional basis.

9 Again, the -- the core purpose of ARC is
10 to share information, what's going on in Manitoba that
11 BC needs to know about, again, whether it's a problem
12 or an opportunity. We -- as we got more active and --
13 and presumably producing value for those associations,
14 we started to get involved in policy guidelines in
15 terms of what is a member, what is an auto recycler,
16 what is a member, how do you encourage more people to
17 participate, how do you make sure that you're
18 representing the positive aspects of the -- the sector.

19 So over time, ARC is -- is generating
20 policies and procedures that act as guidelines for
21 their member associations to adopt, some of them on a
22 voluntary basis, some of them on a mandatory basis. If
23 you want to remain within the ARC umbrella, you'll need
24 to implement some structural things, which, again, I'll
25 talk about a little bit later on.

1 ARM has been at the table since the very
2 beginning. The pre-association activity, which started
3 actually back in 1992, they currently have three (3)
4 board members, which kind of goes against the two (2)
5 per, only because we wanted to have as many eyes and
6 ears as we -- we could. So officially there's two (2),
7 but three (3) are represented at the ARC board level
8 and -- and participate that way.

9 Locally, there's fourteen (14) auto
10 recyclers who are those direct members, the -- the
11 working businesses that any benefits or activities that
12 ARC generates accrue and flowthrough to those
13 associations. We don't have our own association
14 meeting. We meet as a board twice a year, usually an
15 all-day affair. And we align ourselves with one (1) of
16 those regional associations.

17 So we'll be in BC, participate in their
18 two (2) or three (3) day conference, and one (1)
19 usually in April. And then in October we might be in
20 the Atlantic provinces. So it's an opportunity to drag
21 my board members out to other regions to -- to get
22 their hands dirty and -- and see exactly how the
23 business operates, and -- and again, hopefully to take
24 away something and to offer something up when they're
25 there.

1 And I'm -- I'm very pleased to say that
2 the ARM board members have been at every single board
3 meeting that we've ever had. You can't always say that
4 about all jurisdictions, but they've been very active
5 in terms of taking things away and giving things up to
6 make the association a greater activity.

7 The last time we were here in Manitoba
8 as the ARC board was when the Recyclers Central Office
9 was operating directly within ARM. And we had taken a
10 tour of that facility, taken a tour of Recyclers. Sort
11 of, you take a car in. You bust it up. You do things
12 to it all. Why do you do it that way? That's
13 different than what we do it in Ontario or Quebec.

14 And a lot of the 'aha' moments came when
15 it -- it was how you interact with that sole -- sole
16 procurer of parts. Again, it -- it's through the --
17 the shop network. But having one (1) insurer certainly
18 has a benefit in terms of -- of being able to focus
19 your attention on -- on a place.

20 Over time, and I'm -- I've been involved
21 since 1992 in the industry, we have always used
22 Manitoba as the shining example of what auto recycling
23 could be and should be. In our opinion, the Recyclers
24 Central Office predated transparent communication
25 between the -- the three (3) parties that are -- are

1 part of this industry: repairers, recyclers, and
2 insurers.

3 In terms of the information recyclers
4 were seeing at the point in the -- in the estimating
5 system, or estimating process, was really different
6 than what was happening in the rest of Canada, even the
7 rest of the world. So we always spoke glowingly about
8 Manitoba when we were travelling across Canada, through
9 the US, or around the world. This is how they do it.
10 You know, you may not be able to replicate it because
11 of the unique situation locally, but, boy, they're
12 doing some things really smart over there.

13 And -- and I -- I think that's just
14 kudos to whoever came up with the idea, but it was a
15 great idea that technologically has changed. But I
16 think that the basic intent of having positive dialogue
17 between those stakeholders remains a Holy Grail for
18 other countries, other provinces, other insurers to
19 work towards.

20 And we've also -- be -- because every
21 Board meeting that we have, we do a -- a regional
22 report. What's going on in your jurisdiction that
23 another jurisdiction needs to know about? And we would
24 oftentimes hear about the dialogue that would happen
25 between MPI and RCO. And they -- my Manitoba Board

1 members were oftentimes a resource for me to go and
2 say, How do you do this in Manitoba in terms of are --
3 are you using suspension parts, or are you not? And --
4 and if yes, or if no, what's the rationale behind that?

5 Because we found oftentimes -- and --
6 and I think big picture, we see that with single
7 insurer markets, that there tends to be more progress
8 in one (1) way -- one (1) area or another. Many times
9 when I'm down in the US and talk about that model, they
10 scratch their head and yell things at me. But I go, It
11 works in Canada. Trust me, it's -- it's a way that --
12 that moves forward.

13 I'm going to give you the -- a shortened
14 version of just sort of how the industry operates, auto
15 recycling. And when I -- when I use the term 'auto
16 recycling', I'm -- I'm talking about processing end-of-
17 life vehicles, whether they're premature end-of-life
18 vehicles, which we would -- you would call a total
19 loss. We call it premature end-of-life vehicle, or an
20 end-of-life vehicle. Something that's just reached its
21 end-of-life through safety, mechanical, the economics
22 of it all. And -- and taking that asset and converting
23 it into something of value.

24 In Canada, end-of-life vehicles still
25 have value, and that keeps it from being a waste, which

1 isn't always the -- the case in many jurisdictions
2 around the world. And for the sector that -- that I
3 mainly represent, it's the parts industry. It's -- the
4 parts is the core focus of what our members generate
5 the majority of their revenue on.

6 That is changing over time. As the
7 vehicle changes, as scrap markets change -- and I'm
8 talking change of five (5) or ten (10) year horizons as
9 opposed to -- to spot things moving around. There are
10 more val -- high valued materials on a vehicle that
11 more and more recyclers are trying to figure out, How
12 do I squeeze another five dollars (\$5) out of that
13 vehicle? But for the most part, auto recycling, as I
14 call it, is more parts reuse with recycling as a
15 secondary component to it all.

16 But to get at those parts, you need to
17 do proper depollution and materials management. So
18 we're a really unique industry in that we generate our
19 parts inventories by buying cars and busting them up.
20 A pretty simple concept to us, but oftentimes we will
21 run into people who say, Well, why don't you just order
22 another five thousand (5,000) of those? Well, this is
23 not a product that you -- you get the product by buying
24 the car in the first place.

25 And -- and that's one (1) of the -- the

1 keys to progressive auto recycling, is tying the end-
2 of-life vehicle to the parts sales. Without the end-
3 of-life vehicle, we have no parts. And it also
4 influences sort of how those parts are inventoried or
5 categorized, because they all have a different history
6 behind them, and we need to -- to the best of our
7 ability, to capture that history in order to -- to make
8 a sale of that part.

9 A vehicle comes in. We do everything on
10 the VIN. All of our members in Manitoba have digital
11 inventory management systems. There's three (3), maybe
12 four (4) major systems in North America. In the UK
13 there might be twenty (20) different systems. So we --
14 we have the benefit of having fewer inventory systems
15 that -- that have the ability to talk to one another
16 directly.

17 The VIN tells a recycler what the
18 inherent value of that vehicle is in terms of parts,
19 materials, cores, the various things that they can pull
20 off of it. More and more auctions are supplying the
21 VINs to the recyclers, which they can put through their
22 systems to predict value. And it's a predicted value.
23 It's not a known value. You don't recoup your
24 investment until you actually sell the part. Again,
25 it's a -- it's a different model that way in terms of

1 how you -- you value it.

2 The VIN determines the profitability,
3 essentially, of the vehicle over time. What have you
4 sold -- what did it cost you to acquire, move, overhead
5 allocation, and then what have you sold off of it, and
6 what is the potential sale off of that? And that has a
7 different decline, or -- or advancement curve,
8 depending on how old the vehicle is, how long you can
9 afford to hold it based on the space that you have.

10 But is -- it is a much more
11 sophisticated industry in terms of the ability to
12 manage its parts information. Cloud computing is all
13 the rage. We were doing cloud computing probably ten
14 (10), twelve (12) years ago in terms of uploading our
15 inventory to centralized recycler databases and then
16 downloading your own, your trading partners', your
17 provincial partners', your regional partners', your
18 North American partners', and then just determining, Do
19 I want to -- or can I afford to go through the exercise
20 of -- of pulling that part in from California? It
21 exists, but I'm not entirely sure I can get it here on
22 time and still keep my customer happy.

23 So it's a very data intensive business
24 these days, but the data that we capture is -- is very
25 unique to our industry. Something called the Hollander

1 -- the Hollander Interchange, thank you. So it -- it's
2 basically -- over time the VIN has been broken down
3 into what assemblies make up that VIN and what year,
4 make, and models does that cross. And that is -- is
5 interchange information that is shared by all digitized
6 auto recyclers.

7 And they use it as a base to figure out
8 whose got what, who's doing what, what could I get.
9 But universally there's a human being interpreting it
10 because of -- our VIN interchange information only goes
11 so deep before we need to do interpretations on trim
12 codes and -- and various complexities to it.

13 The resale of parts, while primary, the
14 repurposing, I'll -- I'll call them, sort of
15 reengineering or rebuilding of a part has always been
16 an industry. It's a declining industry as the cost of
17 labour, a lot of that is offshore and -- and then
18 you've got to look at the logistics of moving that part
19 back into a low labour situation.

20 So it's tending to be only drive-train-
21 type activity that is rebuilding, but there is a huge
22 appetite for electronic cores. And again, it's all
23 digital. You can supply your list of VINs that you
24 have in your inventory system to a series of core
25 companies, who can then spit back to you what the value

1 of those cores that you have in stock. So O2 sensors,
2 things that normally a recycler is not going to sell or
3 may not even inventory, their systems have deeper VIN
4 decoding to figure out what those cores are.

5 The metals themselves have always been
6 the base of the industry, the ferrous metal for sure.
7 Nobody makes money on ferrous metal any day -- any --
8 anymore these days. It's -- it's a very competitive
9 global commodity. But there's more and more nonferrous
10 metal. More copper, more aluminum coming.

11 And a lot of rare earths that countries
12 are now trying to figure out, How do I get those rare
13 earths back? There's only eleven (11) years left of
14 them on the planet Earth, and that there's a lot of them
15 going somewhere on the recycling side.

16 We need to manage the other materials
17 that come out of a vehicle: tires, oil. The gas has
18 reuse opportunities. Antifreeze, ozone-depleting
19 substances, oftentimes have gotten reuse opportunities
20 directly within the recycler or within their
21 partnership of dealers or -- or other customers.

22 Batteries are stewarded in Manitoba, but
23 there are pollutants that come out, mercury switches.
24 So a 2003 domestic vehicle has a convenient lighting.
25 When you lift the trunk lid up and your light goes on,

1 that's a little pellet of mercury. It's about a little
2 less than 1 gram, which will contaminate a 20-hectare
3 lake if it's not removed.

4 And there's a federal program to ensure
5 that the steel makers and the auto manufacturers are
6 removing those switches. And they do it via our
7 industry. It's a program called Switch Out, and it's a
8 part of CEPA. There's no bounties paid. There are
9 bounties coming out of Saskatchewan, but no other
10 bounties for those mercury switches, and there's, like,
11 a thousand (1,000) recyclers across Canada pulling
12 mercury switches. ARC members represent approximately
13 30 percent of the recyclers pulling those switches, but
14 we pull 70 percent of the switches. And that's just a
15 function of our dismantling approach to the car as
16 opposed to the press it and just trying to extract the
17 metal value out of it all.

18 Manitoba has branding laws, so salvage
19 vehicles, irreparable vehicles, rebuilt vehicles,
20 that's something that we worked on with the CCMTA way
21 back when to try and take the Quebec model into BC and
22 then harmonize it throughout the rest of Canada.

23 So there's that activity that we have to
24 be aware of. And again, that's on the vehicle
25 acquisition side of things.

1 Rebuilding. I -- I don't know what kind
2 of rebuilding opportunities happen within Manitoba in
3 terms of percentages. I know in most other
4 jurisdictions, it's declined quite dramatically.

5 Most good, high end salvage is moving
6 overseas into Africa and -- and Saudi Arabia and -- and
7 parts beyond where they have a different labour
8 component and, quite frankly, no laws on permit
9 branding to allow them to do whatever they want with
10 the vehicle.

11 We are acutely aware that the vehicles
12 are changing. It's, again, a unique industry that we
13 can look at what the manufacturers are -- are producing
14 in terms of year, makes, models, different components
15 to things. And we see that as future inventory coming
16 to us at some point in time.

17 Sometimes we get it before the dealer
18 gets it because it's -- falls off a train, but most
19 times we have to wait for it to be in an accident or
20 wait until it's no longer economical to repair. But we
21 -- almost universally, these are car guys. They like
22 cars, they've always liked cars, and they want to
23 understand what these -- these things are all about.

24 If you ever want to know what kind of
25 car to buy in terms of repairability, talk to an auto

1 recycler. They'll know: I never get a call for that
2 part, and that probably means it's a good part. But
3 when they go, Oh, yeah, I can't keep enough of those
4 Windstars in stock, they know a lot of that activity.

5 So we -- you know, every conference I go
6 to, you know, the vehicles are changing, they're
7 getting more complex. You need to understand these
8 things, and -- and the old timers, which unfortunately
9 I'm getting close to now, it's like, This sounds
10 remarkable like the unibody discussion we had ten (10),
11 fifteen (15) years ago. This is going to end this
12 industry, repairs or recyclers, and they manage to come
13 out of it all.

14 So they are changing. We know it, we
15 see it. We are working more and more with the
16 manufacturers to try and figure out what's in these
17 things.

18 Hybrid and EV batteries is -- our -- our
19 vehicles is a perfect example of that. You know, you
20 can predict how many are coming on the road, you can
21 predict decline rates on them. And those are -- are
22 game changers for us, because we've never had to deal
23 with that heavy, a complex material.

24 The auto recyclers themsel -- the -- the
25 auto manufacturers themselves are nervous about it.

1 They don't want people saying, Oh, don't buy a -- a
2 hybrid EV because it's just a shell game because the
3 recycling side of that big, bad hybrid battery is
4 awful. They ship it back to Japan.

5 They want a domestic industry to be
6 properly managing that. So we're working with
7 companies like GM. They've created a website solely
8 for what is an auto recycler supposed to do with these
9 vehicles, and mainly the hybrid battery.

10 We're working with the University of
11 Waterloo on a post-grad study on, you know, what are
12 the different chemistries out there? Which chemistries
13 have positive value? Which chemistries have negative
14 value? How many of them are out there, and what are we
15 going to do about this?

16 We're -- so we're talking to the
17 Kingsburys, the TOXCOs, the -- the various processors.
18 And some of them have to go all the way back to Belgium
19 right now, but there's a huge infrastructure happening.

20 And we will challenge a manufacturer
21 when they say, Well, just take it back to the
22 dealership. It's like, Well, that's great, but we call
23 the dealership. And the dealership's, Don't bring it
24 to me. So it -- it's an example of technology that's
25 coming, technology that's going to have to be dealt

1 with but an industry that's eager to get on with it and
2 -- and figure out where those information gaps are.

3 You know, we've heard a lot about the
4 information technology that's -- that's here now within
5 the industry. Again, a very technologically savvy
6 group, much more so than -- than what they look like
7 when you visit their -- their storerooms. Parts trade
8 or parts procurement, you know, GM's just announced a
9 delay on them not providing retail pricing. All of the
10 different estimating platforms, you know, either we
11 deal with or our American counterparts deal with.

12 So, yeah, change is inevitable, and I
13 think that it's always going to be there. Will there
14 be fewer recyclers? Probably. You know, that's
15 already happening now on a consolidation basis. And
16 people are saying: You know, I -- I don't want to be
17 in this parts game anymore. I want to become a storage
18 compound.

19 We're seeing probably across the board
20 around the world 5 to 10 percent declines over a three
21 (3), five (5) year time horizon of fewer auto
22 recyclers. But the auto recyclers who are left are
23 bigger, smarter, and just much more technologically
24 advanced.

25 Some of the programs that ARC is working

1 on, or has, the notable one is the Canada Auto
2 Recyclers Environmental Code, so CAREC is what we call
3 it. CAREC came out of -- it -- it was commissioned for
4 Environment Canada as part of their national vehicle
5 scrappage program, Retire Your Ride.

6 The feds said, We need to manage our
7 emissions, so let's get some of those older vehicles
8 off the road. But they were smart enough to ask the
9 question, Okay, we're solving one (1) environmental
10 problem, fewer emissions. Are we creating another waste
11 management problem? What's going on in the auto
12 recycling world that, if we were to dump two hundred
13 thousand (200,000) vehicles on your lap, are they going
14 to go to the right place?

15 Most provinces have got archaic auto
16 recycling rules and regulations. Ontario, it costs you
17 twenty-five dollars (\$25) and, we always say, a letter
18 from your mom that you can be an auto recycler. And
19 consequently, there are lots and lots and lots of auto
20 recyclers, and I'm using quotes now around that,
21 because they -- they don't necessarily steward the
22 vehicle.

23 So Environment Canada commissioned ARC
24 to generate a compliance best practice manual if you
25 wanted to participate on the Retire Your Ride program

1 and receive those retired vehicles, to come up with an
2 audited standard.

3 So we hired a company out of BC, where
4 there are fairly progressive environmental laws
5 relating to auto recycling. Did a legislative scan
6 across every province because, again, Retire Your Ride
7 was delivered on a provincial basis, but they needed to
8 have that kind of federal standard to it all. Came up
9 with what was then called the National Standard for
10 Auto Recycling. Trained about four hundred (400) auto
11 recyclers to that standard and ended up auditing all
12 four hundred (400) of those auto recyclers to
13 participate on Retire Your Ride.

14 It basically was a compliance and best
15 practice document based on a percentage scoring.
16 Industry initially was not too happy with it all. You
17 know, I don't want to have a federal bureaucrat telling
18 me how to be an auto recycler. But we, through the BC
19 experience, sort of said: Well, this is actually --
20 this is common sense. This is bringing structure where
21 there's not a lot of information, structure.

22 And at the end of that program, in
23 Environment Canada's view, that was one (1) of the
24 successes of Retire Your Ride. Yes, they retired a
25 hundred and thirty-five thousand (135,000) vehicles and

1 engaged consumers on -- on owning a more modern vehicle
2 and the emissions impact of that. But CAREC became a
3 legacy of that program.

4 We inherited that program from the
5 federal government and took it over, put up a website
6 to educate the entire industry. So it's not solely for
7 ARC members; it's anybody who wants to understand what
8 that standard is all about.

9 And ARC began to put in place the
10 procedures and policies around updating it, keeping it
11 current with hybrid batteries was the -- the big new
12 one (1) that we added. But we also made the policies
13 decisions to make sure all of our four hundred and
14 twenty (420) auto recyclers were audited to CAREC, and
15 made that as one (1) of the policies to implement
16 locally the requirement to have that audit and have
17 implemented a two (2) year, three (3) year renewal of
18 that audit.

19 And the recyclers who are on that
20 program, you know, many a story of people saying, Boy,
21 I wish I had done this ten (10) years ago because I'm
22 running a more efficient, more profitable, safer, more
23 healthy environment. So that became the backdrop to
24 what an ARC member is all about. It's -- it's the
25 audited difference between what's happening with the

1 rest of the industry.

2 We also -- we've taken over the Retire
3 Your Ride brand. So we have a top-dollar for your old
4 vehicle website engaging consumers. And we've always
5 had Car Heaven, which is a charitable tax model. So
6 donate your car to a local charity. It's handled by an
7 ARC-certified recycler with the commitment that the
8 vehicle will never go back onto the road again.

9 And it has also been the -- the opening
10 foray into our work directly with the auto
11 manufacturers. So we run retirement programs for
12 Toyota, Ford, GM, other rec -- other OEMs. Sometimes
13 it might be just a hundred vehicles that they need
14 taken off the road and make sure that they go off the
15 road. But those become the positive cycles. Why would
16 you want to be an ARC member? You'll have to go
17 through that audit. Well, you get cars at the end of
18 it all, and you have to remember cars are the lifeblood
19 of the industry. Without cars you have no inventory
20 and therefore can't sell any parts for it all.

21 Because of the -- the inconsistency in
22 how auto recycling was applied across the country, we
23 generated a white paper on what is the state of auto
24 recycling in Canada and submitted that to the Canadian
25 Council of Ministers of Environment. I guess they're

1 just up the road from here. And basically calling for
2 a standards-based auto recycling licence that has con -
3 - is consistently applied across provinces. So because
4 vehicles move across provinces, we need to have a level
5 playing field on that side.

6 Presently BC, as I said, has got a auto
7 recycling regulation which they require an
8 environmental management system audited by a third
9 party. Prince Edward Island has just adopted
10 regulations based on CAREC, so they used that as a
11 jumping-off board, but needed to make it into a black-
12 and-white regulation. And that takes effect January
13 1st of 2015. And Ontario is just moving into its
14 second round of consultations on what that essential
15 licence will be. So again, they used CAREC as a model,
16 tweaked and pushed and pulled it for whatever kind of
17 local regulations that are happening.

18 We submitted that white paper directly
19 with the Canadian Vehicle Manufacturers Association.
20 And at that time the AIAMC, which is now the Global
21 Automakers of Canada, and they support the standards-
22 based approach that we're taking. And it's been --
23 that has been the -- the opening dialogue for, We need
24 to talk. You -- you guys make stuff. We want to
25 process it. We want to do it in a safe,

1 environmentally responsible manner. Here's how our
2 industry operates. We really don't want you in our
3 industry. They -- Ford took a foray into our business
4 ten (10) years ago and exited very quickly when they
5 realized it wasn't the profit centre that they thought
6 it was going to be.

7 So we have regular meetings with the
8 automakers now, both individually and on a -- on a
9 collective basis, mainly around the licensing
10 initiative. But again, it's opened up dialogue in
11 terms of how our industry operates and how we need to -
12 - to get information from them.

13 We also have been a regular participant
14 with the CCIF, so the Canadian Collision Industry
15 Forum. So ARC's been a sponsoring member for three (3)
16 or four (4) years. I've presented probably five (5) or
17 six (6) times. And it tends to be this type of
18 presentation. Here's who we are. Here's what we do.
19 Here's what motivates us. Here's what makes us
20 unhappy. And how do we help you? How do we help
21 collision repairers do their job? How do we help
22 insurers do theirs and vice versa?

23 So we're regular participants at that --
24 at those forums. And I use that as -- as my take-away
25 with, Oh, here's what the collision repairers are

1 saying their issues are. Recyclers, you need to be
2 aware of this stuff. You need to be aware of what is
3 cycle time. Why do you need to care about it? Why do
4 you need to make sure that you're -- you're helping
5 them meet their -- their various KPIs. So it's been a
6 -- a fabulous forum for this indu -- industry
7 discussion on what's going on.

8 The -- south of us is the Automotive
9 Recyclers Association. So it's the US association of
10 which we're an affiliate, a super-affiliate we -- we
11 call ourselves. It is a thousand (1,000) member auto
12 recycling entity; 95 percent of them are Americans, but
13 they represent about twelve (12) -- they have
14 membership from twelve (12) countries. I've got to
15 watch what I say. They don't represent Canada; we do.

16 On their executive we have two (2)
17 Canadians. So the immediate past president is an ARC
18 board member from the Maritimes, and we've just put on
19 -- one (1) of our recyclers who has joint facilities in
20 -- two (2) in Ontario and one (1) in New York is now on
21 to their secretary.

22 We have a lot of interactions with them.
23 I run the affiliate chapters committee. So there's
24 thirty-seven (37) affiliates from around the world who
25 get together and again share best practices and stories

1 about what's going on in their areas. What does -- we
2 need to feed into ARA? What do we need to take away
3 from ARA?

4 They run a certified auto recycler
5 program, which has been about twelve (12) years in the
6 market. But they made it voluntary for their members.
7 So we brought in CAREC four (4) or five (5) years ago.
8 Now we've got about 50 percent more certified auto
9 recyclers than they do, even though they have three (3)
10 times the membership.

11 And they've actually adapted their car
12 program to be modelled on our CAREC program, and we
13 send our auditors down to train them on how to do it.
14 This is the first time ever that the US has adopted a
15 Canadian program and -- and acknowledged -- and every
16 time we meet with them, they always acknowledge, And
17 the great things they do up with CAREC, because they've
18 seen our work with manufacturers, with consumers, and -
19 - and with the different entities.

20 ARA runs something called ARA
21 University, which is an online training portal focussed
22 initially around safety, health and safety and -- and
23 the obligations, but more and more putting on online
24 activities in terms of how do you dismantle, how do you
25 deal with -- hybrid vehicles has been a big module that

1 they've just put up.

2 So we're providing input and funding to
3 that to just get more and more content up. And it's
4 something that we're -- it's Canada. It's a big place.
5 It's hard to travel around, hard to bring training to
6 one (1) location. And we don't again have this
7 national training or -- or conference to kind of
8 participate in.

9 They also run a technical committee,
10 which has got direct representation from the auto
11 manufacturers on it, to talk about how we do things,
12 how we drain things, how they could design vehicles
13 differently in order to accommodate the recycling side
14 of it.

15 And they -- the manufacturers
16 acknowledge us, they like us, but they -- they openly
17 admit, You're not on our priority list of -- of how and
18 why we design things in order them to be more
19 recyclable -- safety, CAFÉ, all the other issues that
20 they need to be aware of. Recycling's down there, but
21 it is on the list.

22 The technical committee gives us the
23 opportunity to have that two (2) way dialogue, and it's
24 actually a Canadian who chairs that committee. And I
25 sit on that one as well just to talk about how do you

1 cut these things. Do you cut them?

2 And it's -- a lot of those players are
3 collision repairers and recyclers, so they've got all
4 of the information in house to figure out what the left
5 hand and the right hand need to do with those vehicles.

6 They run a -- a customer assurance
7 program called Gold Seal which is more -- it's the car
8 program taken to the marketing, sort of, external
9 warranties description standards. Canada -- so ARC has
10 adopted the Gold Seal model almost entirely. We've
11 Canadianized it by having the oversight being in
12 Canada.

13 But the reality of our -- our Gold Seal
14 program is it's a -- we recognize that the closer and
15 closer we get as ARC to the business of auto recycling
16 and interacting with customers, the more likely that
17 program or situation needs to be tailored to the
18 individual market.

19 So we've had conversations about mainly
20 Manitoba, BC, and Saskatchewan, recognizing that
21 they've got one (1) insurer and they have an infinitely
22 different relationship than what exists in Ontario or
23 in other jurisdictions.

24 So the principles of Gold Seal are
25 available. Right now, I believe we have fifty-five

1 (54) of our four hundred and twenty (420) who are Gold
2 Seal certified, but 95 percent of those are in Ontario
3 because Intact Insurance required a Gold Seal in order
4 to participate on their parts procurement program,
5 along with their vehicle auction program that they run
6 with the Association.

7 Excuse me. One of the other big
8 activities that we do is -- is called the International
9 Roundtable on Auto Recycling. So this is the global
10 association that we have been at ground zero on. We
11 just came back from Japan. The eighth IRT was held
12 there last month, and Canada hosted about five (5)
13 years ago in Quebec.

14 So it brings together generally about
15 twelve (12) countries. The mains are Canada, the US,
16 Australia, Japan, and Europe. Since then, we've added
17 Malaysia, India, China, Spain, Brazil, and some other
18 far east countries. But it's -- it's our opportunity
19 to find out what's going on there.

20 So we are way ahead of them on the parts
21 side of the business, and it's -- it's mainly because
22 of this Hollander Interchange. We've had it forever,
23 it seems, so we as auto recyclers have talked to other
24 auto recyclers on a minute-by-minute basis to share and
25 see inventory, and that'll -- just allows you to -- to

1 butt up against e-commerce and -- and procurement.

2 So they look at us as, You guys are the
3 parts selling experts. How can we learn from you? We
4 look at them because of -- they're underneath extended
5 producer responsibility of the vehicle, so there are
6 targets for recyclability that they need to meet, so
7 they've developed a lot of the technology. Vehicle
8 depollution, mobile shredding of cars, mobile shredding
9 of tires, that -- that's the type of interchange -- or
10 exchange of information that we do.

11 But we look at what the Japanese are
12 doing. The Malaysians, as an example. You know, the -
13 - their federal government has designated auto
14 recycling as a centre of excellence that they want to -
15 - to manage. And so we just signed a cooperation
16 agreement to -- what do we do with data, what do we do
17 with standards, how do we -- we supply that
18 information, and in turn, we want to get better access
19 to the -- the technological breakdown of vehicles.

20 I'm heading to Korea in two (2) weeks,
21 so the Korean association is -- I'll say it's been
22 taken over by the auto makers, or in cooperation with
23 the auto recycling industry and the government to fund
24 centres of excellence around auto recycling. So
25 they've really short-circuited those relationships,

1 and essentially brought them in-house.

2 So we get to meet with the
3 manufacturers, and again when they -- they know what
4 we're doing in Canada, because their counterparts, you
5 have Kia and Hyundai, go back and tell them, Well
6 here's where Canada is going in terms of EPR,
7 regulatory measures, and -- and sort of some of the
8 activities on the -- the vehicle recycling side of
9 things.

10 So we're -- we run the steering
11 committee. We host the website. So Canada has sort of
12 inserted itself. We're seen as -- Canadians around the
13 world as being pleasant, and brokers of good
14 information. We don't really care about the politics
15 of it all, and we're not the US. So that's -- tends to
16 be the biggest reason why we get thrust into this.

17 But it's just a -- a fabulous
18 opportunity to, I would say, see the future of auto
19 recycling and say, Yeah, I want to -- I want to go for
20 that. I want to make sure that happens in Canada. Or,
21 That's not so pretty. I want to make sure that we're
22 ahead of that, and we're -- we're dealing in
23 alternatives to some of those activities.

24 We've been fortunate to have the
25 involvement of some research institutions on the

1 industry. This is not a sector that is well researched
2 at the university level. Again when we go overseas and
3 we see -- the Japanese researchers are right there at
4 the IRT, giving presentations on how things happen, the
5 same thing in Korea.

6 There has been some fabulous life cycle
7 analysis work out of the University of Windsor. A post
8 doc student, her thesis was the life cycle inventory
9 assessment of the North American ELV management
10 processes. She documented by working with recyclers
11 across Canada that approximately 84 percent of every
12 vehicle has the potential to be reused, repurposed, and
13 85 percent is the target for this year for Europe for
14 vehicles to be at that state.

15 And they've had that target for ten (10)
16 years. And not all of the European nations got over
17 that eighty (80) -- or will get over the 85 percent,
18 but we're already at eighty-four (84), and mainly it's
19 because of the parts and the management of the
20 materials. And -- and I always have to caution people
21 that that's a potential number.

22 If all you're doing is squishing the car
23 and extracting the metal content of it all, you're
24 probably never going to beat 75, 76 percent of the
25 vehicle being recyclable. It's not until you go after

1 the -- the reuse of components of recycling and all of
2 those secondary materials.

3 And -- and we've argued that even
4 percentages are a crude rule to pursue because,
5 essentially, it's saying iron has got the same value as
6 lithium. And because of the rare earths and because of
7 some of the speciality metals, you really need to be
8 more sophisticated on that.

9 We collaborated on a massive study with
10 the CCME, the study of ELV recycling and management, so
11 it was the definitive overview of the industry and an
12 evaluation of CAREC, and that's what led them to
13 working with us. And the CCME just designated as a
14 priority project standardization of the ELV recycling
15 laws across Canada as one (1) of its priorities. So
16 I'm hoping I can slip out and meet with them after to
17 talk to that. I don't get to Winnipeg enough to meet
18 with them.

19 A very interesting report just came out
20 of Quebec. It's the environmental and socioeconomic
21 life cycle assessment of the Quebec auto parts
22 recycling sector. And we just announced funding of a
23 study out of BC with the BC association, the economic
24 and environmental benefits of using recycled OEM
25 second-life parts.

1 So the Quebec study focussed on the
2 environmental aspects in terms of greenhouse gas
3 savings, in terms of water and some -- some of the
4 socioeconomic factors of the industry -- of the sector.
5 And the B-CAR (phonetic) study is looking at the
6 economic side of things. So we're -- we're hoping to
7 pull together some of those studies. And again,
8 Canada's now, from a North American perspective, being
9 seen as a generator of quality information on the
10 sector.

11 So overall, the message that -- that I
12 have is it's a very sophisticated industry, you know.
13 I -- I love the opportunity to talk to people about
14 what we do behind those big fences because it's just
15 not part of life that normal people get and experience.
16 I'm sure these fellows would love to do tours, so we'd
17 love to offer up tours so that you can actually see
18 what's going on. Maybe they got the crusher there.
19 People love to crush cars, too. Make sure it's drained
20 properly.

21 But ARM is an interconnected entity. It
22 doesn't exist in isolation in Manitoba. It focusses a
23 lot of its energy on it all, but more and more it's
24 seeing what's going on in Western Canada or -- or
25 across Canada in other areas.

1 And again, it's not always relevant.

2 You know, we -- we get excited when we come here and
3 go, Look at what they're doing, look at what they're
4 doing here or there. Yeah, in Ontario, we got eighty
5 (80) insurers, and they never cooperate and -- and it's
6 a different market, but you always learn something.

7 And we're experiencing that more on a
8 North American basis. We're getting more Canadians
9 down at the American meetings to -- to see the big
10 exhibits that are happening and hear directly from I-
11 CAR on the implications of all this change and what it
12 means for us.

13 So the Americans have -- have modelled
14 around our Ontario event where it used to be our
15 convention was about auto recyclers talking to auto
16 recyclers, very in-house. But we said, you know:
17 Let's -- let's showcase. Let's talk about what we do.
18 Let's bring insurers in.

19 So we have ten (10) insurance companies
20 who come to our Ontario event. We have probably twenty
21 (20) or thirty (30) repairers who come in. And they
22 hear from us what our issues are, but they get on
23 panels and say, This is what you guys do to us, so when
24 you do this, this is what happens to us. And we go,
25 Well, we do that because of this. And it's --

1 eventually, you end up solving some things on it all.

2 So the Americans have taken that
3 approach now, too, where they're starting to invite the
4 OEs (phonetic) that present to them what they're about.
5 And they're also looking more on an international
6 basis.

7 We -- hey, we're a small industry in --
8 in the automotive sector. We're the tail end of the
9 automotive sector. We're the grave part of it all.
10 And we're the little guys where we tend to be mom and
11 pops. We tend to be small local businesses. Many of
12 them -- Allied -- Alex from Allied, he's been fifty
13 (50) years in the business. He's got a picture of him
14 at the counter, and he's just -- he's a young kid, but
15 he's still there doing his thing.

16 But that doesn't necessarily mean that
17 you're not sophisticated, you're not learning and
18 growing on it all. And our numbers across Canada have
19 been relatively stable. As I said earlier, that, you
20 know, the -- the auto recycling pool of legitimate
21 businesses is declining. But our numbers have been
22 pretty -- pretty flat. We're not growing. We -- we
23 lose three (3), add three (3). And I -- I think that's
24 just because of -- of the information, the programs,
25 and activity that we're -- we're generating.

1 But we understand it is a small sector.
2 We've got to collaborate with people. If we're not
3 telling them what we do and -- and why we do it, if
4 we're not partnering with them to give our information,
5 to get our information, we -- we will be a marginalized
6 business. And that's just because we're at the end of
7 it all, and we do it behind big walls, or big -- big
8 fences that people don't get the opportunity to look
9 at.

10 So ARC's doing a lot of things on a
11 global, national basis. But we -- we need to work
12 locally through ARM. So I don't come in and go lobby
13 the provincial government. You know, that's their job.
14 I'm just the resource to help them understand what's
15 going on in other provinces. Sorry, we don't like the
16 'lobby' word. We like the 'educate' word. And -- and
17 so it is. But my, actually, third trip to Manitoba
18 this year. And I just -- I -- and I want to thank
19 these guys for sort of bringing me here to kind of help
20 explain a little bit, sort of how and -- and what we
21 do.

22 A lot of the activity that ARM has had
23 with MPI has revolved around parts and the -- the past
24 successes of the Recyclers Central Office. But there
25 are opportunities, we think, to talk about the vehicles

1 themselves, the total losses that are generated through
2 MPI. Again, we don't have inventory to sell parts if
3 we don't have access to vehicles. And that's some --
4 something that happens -- is a -- is a major issue
5 across Canada and around the world is -- is effective
6 access to vehicles, whether they're premature or those
7 end-of-life vehicles.

8 A lot of the activity -- a lot of the
9 dialogue that -- that I've seen through this hearing
10 has revolved around sustainability. And it's been
11 sustainability more in my mind from an economic
12 perspective. You know, is there a -- a role to play
13 for auto recyclers within the claims economy in -- in
14 Manitoba? These guys want it. You know, they're here
15 to -- to collaborate, to share information. It -- it
16 used to be that, again, we held this out as a model for
17 how things should work. I don't hear that model
18 dialogue a whole lot any more. It doesn't sound like
19 there's a two (2) way interaction happening, and they
20 for sure want that dialogue to happen.

21 But there are environmental issues as
22 well. You know, again, the mercury switch. It's a
23 little pellet. It's the tip of your finger. It has
24 huge implications if you don't manage it properly. And
25 ultimately, at the end of the day, the start of the day

1 too, these guys are environmental stewards. They're --
2 they are the ones making sure that the vehicles go to a
3 happy life and you're extracting as much value out of
4 it all before it goes someplace where you -- it's
5 really difficult to extract that value.

6 Change is inevitable, but these guys
7 have seen it before. Hopefully, we'll see it again.
8 And they're fully prepared to react to that change,
9 whether it's the information, whether it's the
10 technology side of things. So in terms of the outcomes
11 that they're looking for, it's a return to that model
12 of business partnership with MPI that sounds like it's
13 been lost, to what previously happened.

14 And it's -- it's not about mandating the
15 profitability of a sector over -- over another sector.
16 You know, we believe that having a healthy auto
17 recycling sector is good for Manitoba, not only in
18 terms of rate stabilization and -- and all the issues
19 that's the core of what this -- this hearing is all
20 about, but also to make sure that you're not causing
21 another problem somewhere else by pulling a lever too
22 hard in one (1) direction. And it's certainly not
23 about demanding minimum recycling content. You know,
24 we don't believe in market intervention at that level.
25 But we do believe in transparency in dialogue to make

1 sure that all parties can be successful.

2 So I think that's all I have to
3 officially say. Hopefully, you've garnered that we are
4 excited about this industry. We see nothing but
5 positives happening out there and -- and can't wait to
6 harness them. But it's at the end of the day, they
7 have a massive role to play in making sure that savings
8 are available now and in the long-term for MPI and for
9 the motoring public.

10

11 QUESTIONS BY BOARD:

12 THE CHAIRPERSON: Thank you very much,
13 Mr. Fletcher, for that very comprehensive presentation.
14 I'm just going to ask if there's any questions from the
15 panel first.

16 MR. REGIS GOSSELIN: I have a question
17 in relation to -- to recycling fee for vehicles when
18 they're purchased new.

19 Have you -- can you talk to us about
20 that?

21 MR. STEVEN FLETCHER: Sure. The -- the
22 concept comes from extended producer responsibility.
23 So that's a waste policy theory that the manufacturer,
24 when they build something, whether they're an auto
25 manufacturer or -- or a widget manufacturer, need to be

1 responsible for that at the end of life.

2 So EPR exists on many items, but almost
3 universally items that have no value at the end of
4 life. So tires have a -- we call them eco fees in
5 Ontario, so that's basically a fee put on that item to
6 make sure that it goes to the right place.

7 Our argument, and it's a growing
8 argument around the world, is that a vehicle has got
9 inherent value that if you put a fee on it you will
10 disrupt the marketplace. You know, in a way we go,
11 Yeah, you can pay us to take that vehicle, but there's
12 no need to do it. And the manufacturers, even around
13 the world, who -- who have seen that happen have not
14 been happy with it all.

15 What -- what you end up doing is you --
16 you make the manufacturer financially and legally
17 responsible for something that they have a very limited
18 control over. So you could put an eco fee on a
19 vehicle, but then you have to have -- somehow create
20 the infrastructure to get that vehicle back, which is
21 essentially what we're trying to do with our white
22 papers.

23 Have a standard space licence for the
24 industry. In Ontario the model is licence the auto
25 recycler, regulate the crusher, and regulate the

1 shredder to participate in that model. And there is
2 sufficient value in that vehicle to properly do the
3 right environmental things and still hire people, still
4 invest in technology on it all.

5 So it -- it would be a really unusual
6 place to be to put an eco fee on something that already
7 has value commensurate with the environmental cost to
8 recover it all. It would be really disruptive.

9 Northern communities -- I say this is my
10 third trip through Winnipeg. They're up in Nunavut
11 running a program called Tundra Take Back, trying to
12 figure out that model in the south works. It doesn't
13 work so well up north. And how do you kind of square
14 that with it all?

15 So that's the -- the EPR sort of
16 philosophy that we have, is -- is putting a value --
17 putting a -- putting a fee on it, and having the fee
18 accrue back to the auto recycler still requires you to
19 put the infrastructure in place to make sure that
20 you're measuring and -- and funnelling them through the
21 right place. Because if you don't funnel them through
22 the right place, then somebody, known as the
23 manufacture, has to pay and pay and pay and pay and pay
24 and pay to get it into a licensed system.

25 And that becomes a position that they

1 think would affect their sales, and it's just something
2 that they don't support.

3 MR. REGIS GOSSELIN: Now, we heard from
4 MPI that OEMs and other manufacturers are selling parts
5 into Manitoba for the same price that your mem -- the
6 members of the ARM are offering. Obviously that must
7 be going on in other jurisdictions.

8 MR. STEVEN FLETCHER: Yeah, yeah --

9 MR. REGIS GOSSELIN: And I guess the
10 trend is the same, right? I mean the -- the industry
11 in -- throughout Canada is being, I suppose, attacked
12 by these prac -- trade pricing practices.

13 MR. STEVEN FLETCHER: You said attack,
14 not me. Yeah. Price matching came out of the US, and
15 -- and originally we think the origins revolved around
16 the interaction between the OEMs and the after-market
17 industry, so the offshore fill up a warehouse and --
18 and sell multiple parts.

19 But eventually it -- they designated the
20 -- the alternate part, so anything not OEM, as being
21 the target of that activity. And -- and originally our
22 -- our price advantage, 45 to 60 percent in Manitoba
23 depending on the year, they felt that, Well, we'll just
24 compete on price and ultimately match it on parts that
25 we can supply in a regular fashion and -- and do it --

1 are they doing it to harm our industry? You'd have to
2 ask that -- or the question, Does it harm? Absolutely.

3 You know, we're -- we're basically a --
4 a cost plus. We buy the vehicle in -- in terms of its
5 parts components, and can only buy as many as -- as we
6 can buy, and need to sell them to get out from
7 underneath that vehicle. And you can only hold onto
8 the vehicle so long before you have to turn your money
9 or you have to turn your physical acreage into
10 something.

11 So it -- it does exist everywhere, as
12 far as I know, you know, as do various parts
13 procurement tests. Test, test, test, test.
14 Everybody's kind of looking at it, but we've yet to see
15 a model that's working on it all.

16 And it's -- it's -- we -- we've yet to
17 see a coherent strategy around what the OEMs are doing.
18 Like one (1) day they're price matching, the next day
19 they're not. And there doesn't seem to be any rhyme or
20 reason as to whether they are going to do it on this
21 one (1) or not.

22 And -- and that's what's causing some of
23 the confusion out there in terms of how we value our
24 inventory in order to value whether we should or
25 shouldn't buy that car at that price or not. So it's a

1 huge uncertainty for us as well.

2 MR. REGIS GOSSELIN: You talked about
3 changing vehicles. You know, my impression is that, as
4 these vehicles become more complex and more difficult,
5 my impression is that there'd be more write-offs.

6 Now, I'm not sure if that's a correct
7 conclusion to draw from what I've heard, but more
8 write-offs would be right up your alley, wouldn't it?

9 MR. STEVEN FLETCHER: Oh, we just had
10 that conversation this morning because I asked the
11 question: Are write-offs increasing or decreasing in
12 Manitoba? Because the -- the rest of the industry is
13 seeing more and more -- so the rest of the regions are
14 seeing more and more write-offs.

15 And -- and I'd go up to the CCIF and
16 sort of, You know, here's what's going on. And they'd
17 be like, You guys must be thrilled that they're
18 totalling all these vehicles. I'm like, You know, a
19 totalled vehicle to us is -- is a lost sales
20 opportunity for a vehicle that's not being repaired.

21 And it's actually -- but it's -- it's
22 been one (1) of the major engagement points with
23 insurance companies and repairers on, Yeah, you know,
24 we really do need to figure out this recycle part --
25 piece because it does save money across the board

1 sometimes in specialized situations.

2 So it's a balancing act. If there's too
3 many totals, we end up with inventory that's of no
4 value. And we don't -- we don't see revenue until we
5 get to sell it all.

6 Again, I'm thinking that totals have
7 gotten up into the 25 percent range, maybe 22, 25
8 percent of total claims, up from a historical -- in the
9 teens. And that's a -- a major, major worry for
10 repairers, sounds like outside of Manitoba, and not
11 having enough work to spread around for the capacity
12 that's out there.

13 And so we -- I think it actually was --
14 I -- I referenced the CCIF. You know, we were -- we
15 were criticized for, Well, the only reason they're
16 totalling vehicles is you recyclers are paying way too
17 much for the salvage.

18 And we're like, We don't want to go out
19 of our way to pay too much for it all. That's the
20 market prices that we have to pay to bid for it all
21 because there is a -- a strange dynamic between too
22 many totals. It's not good for industry. Not enough,
23 we don't have enough inventory to kind of manage the
24 demand that's out there. So we -- we like steady
25 states. I think everybody likes steady states. And I

1 just -- I -- I -- these guys didn't have sort of data
2 in terms of whether trend lines are up or down for --
3 for total losses.

4 Any of the insurers I've ever talked to
5 have said a total loss is a bad thing for a consumer.
6 They -- they -- I've never seen a happy policy holder
7 who's had to write their car off. Oh, occasionally
8 they're happy, but for the most part, people can't get
9 back into a vehicle, the vehicle they want, like, know,
10 understand for the amount of the settlement money that
11 -- that they end up getting.

12 Sweeping generalization, not knowing the
13 Manitoba situation.

14 THE CHAIRPERSON: Okay. Thank you very
15 much. So I think that's the end of our presentation,
16 and thank you very much. Did you have --

17 MR. IRVIN FROST: That's correct. We
18 have -- that was the extent of the presentation. Okay.
19 That's it. Thank you, Madam Chair.

20 THE CHAIRPERSON: Thank you very much,
21 Mr. Frost and your crew.

22 MR. IRVIN FROST: Okay. Thank you.

23 THE CHAIRPERSON: Appreciate your
24 presentation.

25 MR. STEVEN FLETCHER: Thank you very

1 much.

2 MR. IRVIN FROST: Thank you very much.

3 THE CHAIRPERSON: I think this might be
4 a good time to take a break till 2:30, and then we'll
5 finish our hearings.

6

7 --- Upon recessing at 2:15 p.m.

8 --- Upon resuming at 2:35 p.m.

9

10 THE CHAIRPERSON: Okay. Welcome back.
11 We'll continue with our proceedings.

12 Did -- Ms. Kalinowsky, did you have some
13 exhibits to put into the record?

14 MS. KATHY KALINOWSKY: Yes, we do. We
15 -- these are responses to the DCAT super undertaking
16 that was posed by the Public Utilities Board. And
17 there's three (3) different exhibits here. I've
18 coordinated with the Board's secretary on these.

19 The first exhibit is the thicker
20 exhibit, and it can be marked as MPI Exhibit number 70,
21 and is the -- the PUB DCAT summaries.

22

23 --- EXHIBIT NO. MPI-70: PUB DCAT summaries

24

25 MS. KATHY KALINOWSKY: The next exhibit

1 is Exhibit number 71, and it's -- at the front it has
2 the -- it's the thicker of the -- but at the top it
3 says:

4 "Phase I DCAT adverse scenarios
5 before management regulatory
6 actions."

7 And then it says, "Loss ratio scenario."
8 And that's the DCAT loss ratios. That should be marked
9 as MPI Exhibit number 71.

10

11 --- EXHIBIT NO. MPI-71: DCAT loss ratios

12

13 MS. KATHY KALINOWSKY: And the next one
14 is only two (2) pages long. And that should be marked
15 as MPI Exhibit number 72. And that's, after the Phase
16 I, DCAT adverse scenarios for management regulatory
17 actions, it states, "For all adverse scenarios tested,"
18 dah, dah, dah, dah, dah. So that can be -- if people
19 want to just refer to that as the DCAT one (1) in two
20 hundred (200), that's that scenario.

21

22 --- EXHIBIT NO. MPI-72: DCAT one (1) in two hundred
23 (200) scenario

24

25 MS. KATHY KALINOWSKY: So at this

1 stage, we're also working on ensuring that electronic
2 copies are sent, because obviously, Mr. Pelly would be
3 interested in these, of course. Thank you.

4 THE CHAIRPERSON: Thank you, Ms.
5 Kalinowsky. I'm going to turn it over to Mr. Gosselin.
6 He has one (1) question for MPI.

7

8 MPI PANEL 2 CONTINUED:

9 DAN GUIMOND, Previously Sworn

10 LUKE JOHNSTON, Previously Sworn

11 HEATHER REICHERT, Previously Sworn

12

13 MR. REGIS GOSSELIN: I do. And I --
14 what I want to do is I want to better understand the
15 operations of the RCO before you made the change and
16 how it works now. So I wonder if, Mis -- Mr. Guimond,
17 if you could sort of a high level explain to us how the
18 RCO worked and how it's working now?

19 MR. DAN GUIMOND: Well, prior for MPI
20 taking over the RCO office, it was a -- it was a legal
21 entity. It had its own management. It has it (sic)
22 own financial statements and so on, and would --
23 operated as -- as a -- as a business. When we took
24 over the RCO, the -- we did -- the -- the business
25 ceased to -- to exist and the -- the -- we -- the

1 software, everything was -- was absorbed within our
2 operations. We -- we also had some of the people that
3 worked at the RCO office come and become MPI employees,
4 and -- and we started to operate it ourselves.

5 So the -- the major distinction is it
6 was -- it was sort of a -- an enterprise -- standalone
7 enterprise. And -- and since then, it's -- it's
8 stopped operating as a -- an independent enterprise.

9 MR. REGIS GOSSELIN: But it was an
10 independent enterprise owned by MPI, was it?

11 MR. DAN GUIMOND: No, no, it was owned
12 by the -- by the RCO. It was -- it was obviously
13 subsidized by us quite a bit, but -- but it wasn't --
14 it -- it wasn't owned by us.

15 MR. REGIS GOSSELIN: Okay, so you were
16 -- you were able to take over simply by saying, We're
17 going to stop our relationship with -- with RCO, and
18 we're going to deal on our own with the recyclers. Is
19 that...?

20 MR. DAN GUIMOND: Yeah, it is an -- an
21 agreement that was reached with the RCO office. Maybe
22 just one (1) moment. I'll just check with Mike.

23

24 (BRIEF PAUSE)

25

1 MR. DAN GUIMOND: Yeah, there was an
2 agreement in place that expired. And when it expired,
3 we -- we took over the office.

4 THE CHAIRPERSON: Okay, thank you. I'm
5 going to call upon Ms. -- Ms. Grammond now to cross-
6 examine on some of the undertakings. Ms. Grammond...?

7 MR. BYRON WILLIAMS: Madam Chair...?

8 THE CHAIRPERSON: Sorry, Mr. Williams.

9 MR. BYRON WILLIAMS: No need for you to
10 apologize.

11 THE CHAIRPERSON: I didn't see you in
12 the back.

13 MR. BYRON WILLIAMS: Yeah, I'm back
14 where I belong. Just for clarification, in terms of
15 the MPI Exhibit 70, 71, and 72, are those considered to
16 be a full response to the PUB undertaking, or is there
17 work still in progress?

18 MR. LUKE JOHNSTON: The -- the -- at
19 the top of each of those exhibits, there's a -- a
20 sentence which is one (1) of the bullet points from the
21 -- the bigger undertaking. And those are the ones that
22 we had stated that we'll do our best to answer at these
23 hearings. The other ones that we said there -- there
24 was no way we could do them in the -- in this time
25 frame, obviously those are not -- are not answered.

1 But we did the best to answer the ones that we could.

2 MR. BYRON WILLIAMS: Thank you.

3 THE CHAIRPERSON: Okay. Thank you, Mr.
4 Williams. Mr. --

5 MR. REGIS GOSSELIN: Madam Chair, I
6 wonder if I could ask a few more questions just to
7 follow-up on that RCO. I'm sorry, but I -- I want to
8 make sure I understand. Now, the -- the motivation for
9 the decision that was taken by MPI to -- to move away
10 from the RCO model to an in-house model, could you
11 explain the log -- the reasoning behind that, M.
12 Guimond?

13 MR. DAN GUIMOND: Well, we -- we felt
14 that -- that with the data that we have that the --
15 that we would really have to change the model of -- of
16 how the recyclers were -- were doing business. Like,
17 we -- we had done some analysis and we saw that we
18 would be selling less and less parts.

19 And as time would go by, we -- we've
20 already made quite a few changes in terms of when
21 recycled parts are -- are purchased, like they're not -
22 - it's not done the same way at all. Like, the -- the
23 business processes have changed now where when it's --
24 it's the shops now that are -- that -- that work with
25 us, but the -- the recycled parts now are -- are being

1 asked for when the actual vehicle is being repaired.

2 And we also knew that we would have to
3 find a way to be able to -- to deal with -- with the
4 problems that -- that we talked about in these
5 hearings. And -- and we have made already process
6 change. And we've made software changes. We're going
7 to continue to make software changes to -- to help them
8 out. We knew that there would be more aggressive
9 competition, like the price matching and so on.

10 So -- and at the end of the day, we need
11 to think about it from a policy perspective because, as
12 you know, we also fall under the Sustainability Act.
13 We -- we do everything -- you know, we have to -- to do
14 certain things there as a corporation, too. And -- and
15 it may very well be that -- that this may turn out to
16 be a policy decision on -- on the long run versus an
17 economic decision. So we were really going to have to
18 think about that.

19 MR. REGIS GOSSELIN: Now, the dialogue
20 that you have with the ARM, I mean, it's on a -- my
21 understanding from your previous testimony is that it's
22 an ongoing dialogue that you have with ARM.

23 Could you -- could you clarify that for
24 us, please?

25

1 (BRIEF PAUSE)

2

3 MR. DAN GUIMOND: There's an
4 undertaking. We're just looking at that. I just want
5 to be -- make sure what I...

6

7 (BRIEF PAUSE)

8

9 MR. DAN GUIMOND: It's Exhibit 49,
10 Undertaking 12.

11 MR. REGIS GOSSELIN: Okay. Thank you.

12 MR. DAN GUIMOND: So here what you have
13 is the ARM representation that was before you. The
14 thirteen (13) recyclers that we're dealing with, some
15 of them are part of -- well, they're all part of ARM
16 now. But there are, like I mentioned, there's a lot of
17 difficulties behind the scenes between these recyclers
18 that we're also dealing with in terms of the -- the
19 association doesn't necessarily speak for the whole
20 group. So there's a lot of stuff going on behind the
21 scenes that we have to deal with.

22 MS. SUSAN PROVEN: I -- I'm just
23 wanting to ask you a bit about that sustainability
24 aspect that you said you may have to think about.
25 Because I think I sort of raised that about four (4)

1 weeks ago, or whenever it was, that originally when MPI
2 went into the recycling sort of aspect, a long, long
3 time ago, it was to kind of be more sustainable. Or at
4 least that's what I thought.

5 And then, of course, you said the
6 competition led to the fact that these OEM parts were
7 matching in price. And often it was easier for the
8 body shops to get those parts. You know, they were --
9 and that -- that customers would feel more satisfied
10 with those -- those kind of parts. So I -- I could
11 understand all that.

12 But I'm wondering, when you say we're
13 going to have to rethink or maybe think about that --
14 you didn't say, "rethink" -- but think about the
15 sustainability aspect, does that mean that you're not
16 finished with this yet? That you may have to think
17 about where these parts, these OEM parts are coming
18 from? I don't know where they're coming from. Are
19 they coming from, say, the Third World, or another
20 country?

21 Where are they coming from?

22 MR. DAN GUIMOND: The OEM parts? They
23 -- they have -- they have warehouses throughout Canada.
24 Some in Ontario, some in BC, and so on, and then they
25 guarantee a certain turnaround time in terms of

1 shipping for the part. So they're -- they're stored
2 and they have a distribution system. The parts
3 themselves can be manufactured in different places of the
4 world but they have a depot, so to speak, to be able to
5 make sure that the parts can be turned around in a --
6 in an acceptable time frame.

7 Yeah. And the -- the recycling business
8 that -- that we started, we -- we were very progressive
9 with that several years ago. But even at that time
10 though it was -- it was -- it was advantage -- it was
11 sustainable but also from a pricing perspective it was
12 very advantageous. So the -- the world is changing
13 from a price point perspective.

14 THE CHAIRPERSON: Okay. Ms. Grammond,
15 your cross-examination?

16

17 RE-CROSS-EXAMINATION BY MS. CANDACE GRAMMOND:

18 MS. CANDACE GRAMMOND: Thank you, Madam
19 Chair. So I have a few questions for the MPI panel
20 arising from a few of the undertakings that have been
21 answered. The first one that I'd like to go to is
22 Undertaking number 4. This is, I believe, Exhibit 47
23 on behalf of the Corporation.

24 This was -- thank you, Diana -- this was
25 the undertaking that was asked regarding the linkage

1 between raising the Basic deductible and the potential
2 impact on body shops. Diana, can you scroll down to
3 the bottom of that page where we see the table? Thank
4 you.

5 So we see here the Corporation has
6 provided a table illustrating payments made in the
7 fiscal year 2013 where the standard Basic portion was
8 less than five hundred dollars (\$500), et cetera. And
9 so we see a variety of pieces of information set out
10 here. The Corporation's broken it down by type of
11 coverage, and there's an abandonma -- abandonment rate,
12 pardon me, reflected for each of those categories, as
13 well.

14 My first question with respect to this
15 is: If you could explain the source of the information
16 that gives rise to that abandonment rate that we see,
17 whether it's claims experience, or anecdotal, or
18 something else?

19 MR. DAN GUIMOND: Yes. So the -- what
20 we did is we -- from a data analytics perspective we
21 ran a query, and we know that spent \$21.1 million on
22 claims that were below five hundred dollars (\$500),
23 okay.

24 So the point we're trying to make here,
25 if the deductible goes up, people may necessarily --

1 maybe they can afford three hundred (300) or four
2 hundred (400), but let's say it's -- it's -- if you go
3 up the -- there comes a point in time where your --
4 your -- you will lose work. And it's a little bit what
5 the gentleman was telling -- telling about the
6 recyclers, that the write-offs or -- or the deductibles
7 and so on, you -- you get into a situation where you
8 lose work.

9 So on this model, if you go a little bit
10 further down, I think it says that we modelled it --
11 okay. I'm just going to try and find the section here.
12 One (1) moment, please.

13

14 (BRIEF PAUSE)

15

16 MR. DAN GUIMOND: Okay. There comes a
17 point in time as -- as time goes by that -- that the
18 customer decides to drive with the damaged vehicle
19 versus having it repaired. So we modelled what would
20 happen in terms of -- of the abandoned rate. So this
21 was discretionary on our part to -- to be able to --
22 like to give you an idea of -- of what can happen in
23 terms of when the deductible goes -- goes up.

24 So you -- but how much of it we would
25 lose, you know, is -- is -- we know we're going to lose

1 business. Like people will drive when the vehicle is
2 damaged. You can see that when you go across Canada.
3 There's -- you know, I always look at vehicles when I
4 go to different cities. A lot of them go around with
5 damage on them.

6 So the -- the point is, is that you will
7 lose business for the repair industry.

8 MS. CANDACE GRAMMOND: Diana, if you
9 could just scroll back to the chart? So, Mr. Guimond,
10 I think I understand the -- the basic point, that
11 people that can't afford to pay the deductible and get
12 their vehicle fixed but have a vehicle that is still
13 drivable may just chose to keep driving it with a
14 scratch or dent, or whatever, and not -- not proceed.
15 And I -- I appreciate that that's less work for body
16 shops.

17 But I -- I -- we do have a few more
18 questions about this. So when you say that -- that
19 there was some discretion in the abandonment rates that
20 are reflected here, can you tell us a little bit more
21 about that? Because we -- we see quite a range from a
22 50 percent abandonment rate --

23 MR. DAN GUIMOND: Yeah.

24 MS. CANDACE GRAMMOND: -- up to an 80
25 percent abandonment rate. So can you maybe explain how

1 that number varies between the categories?

2 MR. DAN GUIMOND: No. I -- I don't
3 have the details with me to -- to answer that question.

4 MS. CANDACE GRAMMOND: Now, the other
5 question that I have with respect to this is, this is
6 assuming that the Basic deductible is five hundred
7 dollars (\$500), which obviously it is at present.

8 But what percentage of Basic policy
9 holders buy down their deductible? Do you know that?

10 MR. DAN GUIMOND: About 85 or 87
11 percent, if I recall.

12 MS. CANDACE GRAMMOND: And so would the
13 abandonment rate that we see here be affected by that?
14 Because it's bought down their deductible. Now it's
15 maybe two hundred (200) and they are -- it is easier to
16 afford when they have a claim.

17

18 (BRIEF PAUSE)

19

20 MR. DAN GUIMOND: The -- the best way
21 to say that is -- is that our Extension deductibles,
22 like the layers that we have. So -- so the -- what
23 happens is that, at the -- if -- if you -- like let's
24 say you would say you move it up to a thousand dollars
25 (\$1,000) deductible, but you still offer people the

1 ability to -- now you would offer people to be able
2 maybe to have a five hundred dollar (\$500) deductible.

3 But then you're going to have to let go
4 of maybe the one hundred (100) or two hundred dollar
5 (\$200) layers because you -- because from -- in terms
6 of the coverage that you provide in terms of
7 affordability and what -- what you can sell becomes --
8 becomes an issue there. So you have to be able to move
9 these -- these targets around.

10 MS. CANDACE GRAMMOND: But does the
11 table that we see here reflect the fact that 85 or so
12 percent of the motoring public buys down their
13 deductible? Or is this -- these -- these numbers are
14 just based on a five hundred dollar (\$500) Basic
15 deductible, period?

16

17 (BRIEF PAUSE)

18

19 MS. HEATHER REICHERT: The assumption
20 underlying the discussion about raising the deductible
21 to seven hundred (700) from five hundred (500) for
22 Basic, the other part of the assumption was that the
23 extension buy-down would only be bought down to five
24 hundred (500). There would not be a buy-down to one
25 hundred (100) or a buy-down to two hundred (200). It

1 was only a buy-down to five hundred (500).

2 So you could buy down your Basic
3 deductible -- excuse me -- deductible from seven
4 hundred (700). You could buy it down by two hundred
5 (200) to a five hundred (500) deductible.

6 MS. CANDACE GRAMMOND: And that's what
7 --

8 MS. HEATHER REICHERT: That's the
9 underlying assumption.

10 MS. CANDACE GRAMMOND: That this
11 table's based on. Okay.

12 Now, I know that MPI made reference to
13 the following as well in this response, which is that
14 it's possible that some of these people that are
15 included in the abandonment rate are still getting
16 their vehicle fixed. They're just not doing it through
17 MPI.

18 That's a possibility, right?

19 MR. DAN GUIMOND: Yes. It's -- that is
20 a -- a possibility, and -- and it is happening in other
21 jurisdictions, right? So now you're -- you know, like
22 it -- it depends on the quality of the work too and the
23 deals and all that stuff that goes on.

24 MS. CANDACE GRAMMOND: So would it be
25 fair to say that the dollar impact that's shown here of

1 about 10.1 million that is -- that would be not going
2 through MPI and going through the body shops could
3 actually be a smaller number if body shops are still
4 getting work -- some of that work directly from
5 motorists and just not through MPI?

6 MR. DAN GUIMOND: Yeah. There'd be all
7 kinds of things going on, yeah.

8

9 (BRIEF PAUSE)

10

11 MS. CANDACE GRAMMOND: Ms. Reichert,
12 with respect to the table here, is this based on just
13 the 2013 fiscal year or is it based on a longer period
14 of time? It indicates in the preamble that it's
15 payments made in the fiscal year 2013?

16 MS. HEATHER REICHERT: Yes, that's
17 correct.

18

19 (BRIEF PAUSE)

20

21 MS. CANDACE GRAMMOND: Did the
22 abandonment rates that we see here come from the
23 Corporation's analytics of the numbers for that year?

24 MR. DAN GUIMOND: It came from an
25 analysis that -- that we have. But the -- the point

1 that we're trying to show with this -- this table is
2 that there is an equilibrium in the ecosystem between
3 the number of write-offs, the number of jobs, the shop
4 rate that we negotiate, the price of parts, and
5 servicing Manitobans throughout the Province.

6 There is an amount of speculation as to
7 how much work we would lose; we just know we would lose
8 some.

9 MS. CANDACE GRAMMOND: Whether it's the
10 ten point one (10.1) or some other number?

11 MR. DAN GUIMOND: Exactly. And like
12 you say, they -- they might do things under -- you
13 know, there's all kinds of things that would happen
14 that -- that people might negotiate between themselves.
15 But the thing is the equilibrium between the number of
16 write-offs, the jobs that we have for the repair shops,
17 the -- the number of shops we have to service
18 Manitobans throughout the province.

19 So in terms of -- of economies of scale,
20 you have to really be careful in terms of -- as an
21 insurer, in terms of writing off too many vehicles or
22 the deductibles. All these things are interplayed.
23 And it's very important to understand that one has to
24 be very careful which lever you -- you push to -- to
25 not negatively affect affordability.

1 MS. CANDACE GRAMMOND: Now, does this
2 undertaking response essentially set out the only
3 analysis that the Corporation has on the issue of
4 increasing the Basic deductible, or has the Corporation
5 looked at that question otherwise?

6 MR. DAN GUIMOND: It's something that -
7 - that we keep an eye on and we have looked into in the
8 past. So, yes, it's something that we're -- it's --
9 it's very sensitive in -- in terms of the ecosystem, so
10 we -- we monitor that.

11

12 (BRIEF PAUSE)

13

14 MS. CANDACE GRAMMOND: Ms. Reichert,
15 can you give us an indication of how the analysis would
16 change if it was based on an -- a buy-down deductible
17 of two hundred (200) as opposed to five hundred (500)?

18

19 (BRIEF PAUSE)

20

21 MS. HEATHER REICHERT: No, we really
22 can't say just off -- off the top what the impact to
23 the schedule would be.

24 MS. CANDACE GRAMMOND: Thank you.

25 Those are my questions with respect to this

1 undertaking.

2 I'm going to go then to some questions
3 that deal with Undertaking number 31 and a couple of
4 other documents. Diana, what I'm going to ask you to
5 do is put on the screen one (1) of the documents that I
6 provided to you. It's entitled, "MPI Interest Rate
7 Change Financial Exposure."

8 So there's going to be a document come
9 up. I'm going to tell you kind of what this is, and
10 then where -- where we're going with it. So what we
11 see here -- and you'll see that there are a couple of
12 notes that are underneath the -- the chart.

13 So what this represents is, if you look
14 at the line that's called, "Investment income," which
15 relates back to note 1 and page 39 of the audited
16 annual report for Basic.

17 The Corporation had indicated at that
18 source that in a interest rate scenario of a decline of
19 1 percent, there would be positive change to corporate
20 investment income of 67.3 million, and in a interest
21 rate increase of 1 percent. So just moving across the
22 row, there would be positive corporate investment
23 income of 78.9 million.

24 Are -- are you with me on following
25 along that row? And we can go to the page 39 of the

1 annual report if you wish to -- to confirm the numbers.

2 MS. HEATHER REICHERT: No, that's fine.
3 I'm following you.

4 MS. CANDACE GRAMMOND: Okay. So then
5 at the -- at the row that's called "Claims Liability,"
6 we see, again, two (2) numbers in the same scenario.
7 So the interest rate decline of 1 percent or the
8 interest rate increase of 1 percent. That's taken from
9 Undertaking 31. So MPI Exhibit 39. It shows there
10 that there would be an increase to claims liability in
11 a 1 percent interest rate decline scenario of 108.7
12 million, or in the interest rate increase scenario of
13 102.2 million. Again, I'm happy to go to Undertaking
14 31 if you'd like to confirm those numbers.

15 MS. HEATHER REICHERT: No, that's fine.

16 MS. CANDACE GRAMMOND: Okay. So doing
17 the math, then, obviously one (1) number offsetting
18 from the other, in the interest rate decline scenario,
19 we'd have a -- a negative impact on net income of 41.4
20 million. And in the increase scenario, a net income of
21 23.3 million. We're just doing the math of the two (2)
22 numbers.

23 MS. HEATHER REICHERT: Yes, I see that.

24 MS. CANDACE GRAMMOND: Okay. So you're
25 -- you're good with that so far?

1 MS. HEATHER REICHERT: Yes. I'm just
2 checking something because a similar note, I think,
3 would be from the audited annual report that you've
4 noted there. There would be a similar note in the
5 Basic statements where you would not have to take a --
6 a estimated percentage off. So I was just going to
7 check that.

8 MS. CANDACE GRAMMOND: Yeah, that would
9 be good, because that was actually going to be my first
10 question is, these are corporate numbers, and the
11 reason why the Basic columns are blank is because we
12 want to make sure that we know what the Basic share
13 would be for each of the numbers shown.

14

15 (BRIEF PAUSE)

16

17 MS. HEATHER REICHERT: Okay. So on --
18 this is from the Universal Compulsory Automobile
19 Insurance Annual Financial Statement for the fiscal
20 year ended February 28th, 2014. It's note -- just a
21 second -- note number 24.

22 MS. CANDACE GRAMMOND: Okay. What
23 page, sorry?

24 MS. HEATHER REICHERT: Page 35, right
25 at the top.

1 MS. CANDACE GRAMMOND: Yes.

2 MS. HEATHER REICHERT: Interest rate
3 risk note.

4 MS. CANDACE GRAMMOND: Sorry, my page
5 35 has something else.

6

7 (BRIEF PAUSE)

8

9 MS. HEATHER REICHERT: Diana? So --

10 MS. CANDACE GRAMMOND: Yeah, Diana can
11 pull it up.

12 MS. HEATHER REICHERT: So -- so, Diana,
13 it is -- it's -- it's in Volume III of our Application
14 submission. And it's Universal Compulsory Automobile
15 Insurance Annual Financial Statement for the fiscal
16 year ended February 28th, 2014. And it would be page
17 35 on that document.

18

19 (BRIEF PAUSE)

20

21 MS. HEATHER REICHERT: Okay. So we
22 have it up on the screen. It's the -- the paragraph
23 right underneath the table.

24 MS. CANDACE GRAMMOND: Yes.

25 MS. HEATHER REICHERT: So --

1 MS. CANDACE GRAMMOND: That reflects
2 the investment income changes?

3 MS. HEATHER REICHERT: That's right.
4 And that's the Basic investment income calculated
5 changes based on this, you know, hundred (100) basis
6 point increase or decrease.

7 MS. CANDACE GRAMMOND: Right. So the -
8 - the number then for the 1 percent decline scenario
9 would be 56.8 million, and the 1 percent increase would
10 be sixty-six point six (66.6)?

11 MS. HEATHER REICHERT: Correct.

12 MS. CANDACE GRAMMOND: Okay. And what
13 about the claims' liabilities numbers, going back to
14 the document that we had prepared that had that in
15 blank?

16 MS. HEATHER REICHERT: I'm just going
17 to consult with Mr. Johnston here for a minute.

18

19 (BRIEF PAUSE)

20

21 MS. HEATHER REICHERT: So Undertaking
22 number 31, the claims' liability, that would be Basic
23 as well. And the -- well, and -- and Extension doesn't
24 have long-term claims that would be impacted by changes
25 in -- in interest rates to any -- in any event. Yeah.

1 MS. CANDACE GRAMMOND: Okay. So what
2 you're saying is that the numbers in Undertaking 31 are
3 for Basic?

4 MS. HEATHER REICHERT: Correct.

5

6 (BRIEF PAUSE)

7

8 MS. HEATHER REICHERT: Just one (1) --
9 one (1) second.

10

11 (BRIEF PAUSE)

12

13 MS. HEATHER REICHERT: So because it is
14 virtually all Basic that -- that the bodily injury
15 claims relate to, those are the ones that are impacted
16 by fluctuations in interest rates. So even though I
17 was just noting on Undertaking number 31, it's
18 referencing where it's disclosed in the Corporate
19 annual financial statements, the impact to claims'
20 liabilities.

21 So we did take the number off of the
22 Corporate financial statements, but per my discussion
23 with Mr. Johnston, because Basic is really the only one
24 that has those type of claims, it's essentially the
25 same number corporately and for Basic. So just to

1 clarify.

2 MS. CANDACE GRAMMOND: Thank you. So
3 then to fill in the blanks in the -- the chart that
4 appears on the screen, we've talked about the numbers
5 on the investment income line, the fifty-six point
6 eight (56.8) in the decline column and the sixty-six
7 point six (66.6) in the increase column.

8 What you're saying is the claims'
9 liabilities numbers that are there would essentially
10 remain the same, and then if one did the math, you
11 would come up with the net income impact for Basic
12 across the bottom?

13 MS. HEATHER REICHERT: Correct. So the
14 numbers that you calculated in -- with the -- with the
15 numbers that we just talked about for investment income
16 for Basic would be a bit higher in -- in both the
17 situations. So a higher negative and a higher
18 positive.

19 MS. CANDACE GRAMMOND: Madam Chair, if
20 you don't mind, with that information, I'd just like to
21 take a minute with Mr. Cathcart before I continue?

22 THE CHAIRPERSON: Yes, please go ahead.

23

24

(BRIEF PAUSE)

25

1 CONTINUED BY MS. CANDACE GRAMMOND:

2 MS. CANDACE GRAMMOND: Thank you. I'm
3 back, Madam Chair. Thank you, Ms. Reichert, that --
4 that's been very helpful, and has answered some of the
5 other questions that we had, as well. So I just have a
6 couple more questions for you for clarification.

7 I'll ask you now to go to Undertaking
8 number 30. This was a -- a question relative to the
9 duration matching issue. And thank you, Diana. If you
10 can scroll to the first part of the attachment on the
11 next page. Thank you.

12 So this particular attachment reflects
13 the base scenario with the two (2) year duration gap,
14 right, the negative two (2) year duration gap as
15 opposed to the one (1), the negative one (1)?

16 MS. HEATHER REICHERT: Correct.

17 MS. CANDACE GRAMMOND: So we see that -
18 - now, I appreciate this is the retained earnings. But
19 if we look under the 2015 fiscal year at the line
20 called "Transfer from Basic retained earnings," we see
21 a loss of 37.2 million?

22 MS. HEATHER REICHERT: Correct.

23 MS. CANDACE GRAMMOND: And in the GRA
24 as filed with the 1 percent, the net loss, per Pro
25 Forma 1 for the same year, is about 38 million.

1 So we're just wondering about the
2 difference of only seven hundred (700) or eight hundred
3 thousand (800,000) and wondering about why that's the -
4 - the only difference.

5

6 (BRIEF PAUSE)

7

8 MS. HEATHER REICHERT: Okay. I can't
9 do an on-the-spot reconciliation, but part of it would
10 be that we only switched from a minus two (2) duration
11 to a minus one (1) duration at the end of August in
12 2014. So you only have a half-a-year impact of
13 changing duration. With go-forward years it would show
14 the impact of a full year at minus two (2) duration and
15 a full year compared to what we submitted, a minus one
16 (1) duration.

17 So I think it's because of the -- the --
18 in the year is when we transitioned to -- from minus
19 two (2) to a minus one (1) duration.

20 MS. CANDACE GRAMMOND: Thank you, Ms.
21 Reichert.

22 Madam Chair, I can indicate that that
23 concludes the cross-examination on behalf of the Board.

24 THE CHAIRPERSON: Thank you very much,
25 Ms. Grammond.

1 Now I'm going to ask Mr. Williams from
2 CAC if he has any cross-exam.

3 MR. BYRON WILLIAMS: No. Thanks to the
4 courtesy of MPI at lunch, the questions that I did have
5 were -- were answered offline.

6 I did want to just pose a question
7 whether the document that Ms. Grammond referred to in
8 her cross-examination, the -- whether that should be
9 marked as an exhibit or not and distributed to parties.

10 MS. CANDACE GRAMMOND: Good point, and,
11 yes, it should be. So let's mark that as the next
12 Board exhibit. And I don't know what number that would
13 be, but I know Ms. Dubois will have that information.

14 THE CHAIRPERSON: Exhibit number --
15 sorry. Exhibit number 13.

16 MS. CANDACE GRAMMOND: Thank you.

17

18 --- EXHIBIT NO. PUB-13: MPI Interest Rate Change
19 Financial Exposure

20

21 MS. CANDACE GRAMMOND: Now I'd like to
22 turn the mic over to Ms. Kalinowsky for MPI.

23

24 RE-DIRECT EXAMINATION BY MS. KATHY KALINOWSKY:

25 MS. KATHY KALINOWSKY: Thank you very

1 much for this opportunity. Mr. Johnston has a few
2 points that he would like to address in a re-direct.
3 And instead of me asking a lot of belaboured questions,
4 I'll just hand the microphone over to him, so to speak,
5 and let him speak to it. Thank you.

6 MR. LUKE JOHNSTON: Thank you. So we
7 heard from Dr. Simpson. That was yesterday? No.
8 Anyways, we heard from Dr. Simpson. There's just a few
9 points that -- that he made, either in -- in his
10 presentation or in his document, that I wanted to make
11 sure the Board had a full understanding.

12 Some of them I -- I don't believe are
13 correct, so I want to make sure what's on the record is
14 -- is fully understood by the Board and obviously
15 accurate.

16 So I'll be brief. My first comment is -
17 - and if you look at transcript pages 1,628 and 1,629 -
18 - you don't have to go there -- Dr. Simpson seems to
19 imply that the -- the MCT is not linked to the risks of
20 MPI, and that the MCT risk loads are arbitrary.

21 That is absolutely false. The MCT is
22 definitely and clearly linked to the risks of MPI. The
23 risk loads are determined by OSFI. If you were to look
24 at the MCT guideline, they approximate the risk loads
25 at about a 99 percent confidence.

1 The risk to equities at a 99 percent
2 confidence level isn't affected by whether you're compe
3 -- in a competitive environment or you're a public
4 insurer. That's just the -- the risk load they apply
5 to equities. So that's the first point I wanted to --
6 to make.

7 Second is this discussion about the
8 Corporation's rate changes and linking them to the
9 inflation rate. In -- Dr. Simpson talked about this a
10 little bit in page 1,633 of the transcript. But in his
11 written document he states:

12 "The puzzle is why the proposed
13 increase of 1 percent are designated
14 to the RSR rebuilding fee and no
15 vehicle premium rate increase is
16 assumed in a period when inflation, a
17 rough indicator of the increase in
18 operating costs, is rising steady at
19 2 percent. In such an environment,
20 it is unreasonable to assume that MPI
21 would not request a rate increase
22 that reflects its anticipated
23 operational cost increase and that
24 the PUB would not grant such an
25 increase."

1 He then goes on to recommend this 1.6
2 percent over four (4) years kind of rate proposal.

3 As the Board is well aware, we -- we set
4 rates on a break-even basis. We also have extensive
5 documentation on every trend we select for pretty much
6 every forecast.

7 Without going into a lot of detail, we
8 have natural premium growth effects, like the upgrade
9 factor, that occur, volume growth. So I just wanted to
10 be cautious with recommendations like this because
11 there's a lot of detail in the GRA about why that's not
12 appropriate. So I would not recommend giving any
13 weight to that -- that proposal.

14 Third, Dr. Simpson is critical of our --
15 our claims count forecast on page 9 of his written
16 report or discussed in transcript 16 -- page 1,631. In
17 his written report, he -- he states:

18 "A more sophisticated analysis of the
19 time pattern of claims using standard
20 time series techniques..."

21 That -- that we should do that. And he
22 concludes that our forecast, quote:

23 "...leads to instability in the
24 claims forecast for the base scenario
25 and contributes to the disappointing

1 retained earnings forecast."

2 End quote. The problem is that the area
3 he's referencing is not actually our -- our claims
4 count forecast. He's looking at a trend analysis that
5 was supplied by MPI in PUB-3-10 purely for a specific
6 purpose, just to project trends in the business. And
7 if -- if he were to look at the claims incurred
8 section, he would see that we have very detailed and
9 thorough forecasts for all our claim count assumptions.

10 So -- so Basic -- I -- I think the --
11 the PUB cross loo -- looked at this a little bit. I
12 agree that our trend analysis should probably be
13 consistent with our claims forecast. I -- I'll take
14 that as something to do for next year. But in terms of
15 the critical comments about our forecast being flawed,
16 they're -- they're not. That's not what we use in our
17 forecast.

18 Next, this whole idea about the equity
19 decline scenario not considering the rebound, I
20 understand his point for the shorter scenarios. But
21 again, I mentioned this, I think, on the first day in
22 my presentation, I have to advise management and the
23 board of the most adverse scenarios at every point in
24 time.

25 So if there is a one (1) year event that

1 could completely eliminate the RSR, the board needs to
2 know regardless of whether there's going to be a
3 rebound two (2) years later or whatever. So what we do
4 in the DCAT is we literally show the most adverse
5 scenarios at one (1), two (2), three (3), and four (4)
6 years. And that's -- I think it's pretty well
7 documented that I suggest not to look beyond the return
8 period that we're discussing.

9 That said, any of his comments in this
10 regard are not relevant to the DCAT indication, because
11 the -- the combined scenario, which is the driver of
12 the -- the ultimate number, does use a four (4) year
13 return period. And in that scenario, the equity return
14 assumed is actually 19.4 percent over the four (4)
15 years relative to our forecast of thirty-two (32). So
16 not, by no means, some ext -- extreme implausible
17 assumption.

18 Almost done. The next point is in
19 regards to the -- this idea that our loss ratio
20 simulations only use thirteen (13) data points.

21 Transcript thir -- 1,636, Dr. Simpson states, quote:

22 "They have limited that data analysis
23 to annual data since 2001, which
24 really only gives them thirteen (13)
25 data points -- thirteen (13) data

1 points to try to fit the distribution
2 to, which is a little thin by
3 statistical standards."

4 And then he goes on to say:

5 "It seems to me if there is anything
6 that can be done to improve the
7 quality of that analysis, that should
8 probably be done."

9 Our -- our loss ratio model is not based
10 on thirteen (13) data points. Some of the material
11 you've been handed out today in -- shows the kind of
12 detail that goes into that modelling. I'd suggest that
13 our model has millions and probably multiple millions
14 of claims that we used to fit all the distributions
15 that -- that you'll see in response to the DCAT, the
16 PUB DCAT request. So that -- those statements are just
17 incorrect, in my opinion.

18 The last point I just wanted to -- to
19 discuss is the -- the great stagflation. Dr. Simpson
20 states, quote -- this is on page 1650:

21 "The interest rate decline in the
22 combined scenario should be
23 discounted, since they rely on
24 evidence from the great stagflation."

25 And end quote. So again, at my initial

1 presentation, the Corporation indicated they were quite
2 willing to -- to work with the parties to address the
3 stagflation piece. What I'd suggest from other
4 exhibits that we filed is -- is our -- our DCAT
5 scenario is very close to just the flat interest rate
6 scenario. We have -- as you know, we have the floor at
7 1.6 percent that we use. We have an undertaking out
8 that shows what the effect would be if interest rates
9 just stayed the same at -- at 2 percent that -- where
10 they currently at.

11 So while I appreciate Dr. Simpson's
12 comments on the floor, and that's something we'd be
13 willing to -- to look into, I personally believe that
14 at a one (1) in forty (40) probability level, there's a
15 -- the interest rate staying flat is something
16 plausible, definitely, looking into just two (2) or
17 three (3) out -- two (2) or three (3) years out into
18 our rating period. So that's just my opinion on that.
19 And that's all I have. Thanks.

20

21 (BRIEF PAUSE)

22

23 THE CHAIRPERSON: Okay. Thank you very
24 much. Is that it for today, then?

25 MS. KATHY KALINOWSKY: Yes, it is from

1 our perspective.

2 THE CHAIRPERSON: Ms. Grammond...?

3 MS. CANDACE GRAMMOND: Thank you, Madam
4 Chair. I think we'll resume tomorrow morning at 9:00.
5 I'll lead off with closing comments. We'll then hear
6 closing arguments from the various Intervenors. I
7 think they've discussed the order and who's going to go
8 first and second and so forth, so we'll hear from them
9 tomorrow. And then Friday, we'll convene at 1:00 p.m.
10 for the closing comments of MPI. So that's the plan as
11 I know it.

12 THE CHAIRPERSON: Thank you very much.
13 Have a good evening, and we'll see you tomorrow at 9:00
14 a.m.

15

16 --- Upon adjourning at 3:24 p.m.

17

18

19 Certified correct,

20

21

22 _____

23 Cheryl Lavigne, Ms.

24

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